DOCUMENT RESUME

ED 266 999 SO 016 968

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TITLE Economics in Japan: A Curriculum Project.
INSTITUTION Irvine Unified School District, Calif.; U.S.-Japan Education Group, San Francisco, CA.
PUB DATE Jun 83
NOTE 163p.; Newspaper reproductions and some tables contain light print that may not reproduce clearly.
PUB TYPE Guides - Classroom Use - Guides (For Teachers) (052)

EDRS PRICE MF01/PC07 Plus Postage.
DESCRIPTORS *Asian Studies; Economic Change; Economic Progress; *Economics Education; *Economic Status; Foreign Countries; Instructional Materials; Secondary Education; *Socioeconomic Influences; Units of Study
IDENTIFIERS *Japan

ABSTRACT

Intended for use with students in grades 9-12, this collection of materials dealing with economics in Japan is based on and prepared from experiences and information gathered by a U.S.-Japan study trip. Materials focus on: (1) underlying values important to contemporary Japanese society, (2) Japan's rise from an "occupied country" (1945-1951) to an industrial giant in the world today, (3) the political economy of contemporary Japan, (4) the methods by which Japanese industry has developed its organizational structure, (5) those making economic decisions in and for Japan, (6) similarities in basic economic problems experienced by Japan and the United States, (7) potential economic problems with global implications, and (8) economic interdependence. The sources of information included in this packet are outlines of addresses delivered by persons from Japanese government and industry; extracts from Japanese publications, including organizational materials and newspapers; and articles from American newspapers, magazines, and books that are related to economics in Japan. Materials are organized under eight headings, each of which has a specific educational goal stated in the table of contents. (LH)

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Economics in Japan

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ECONOMICS IN JAPAN

A Curriculum Project

submitted to

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INTRODUCTION

". . . There is one thing about the future of which we can be certain, it is this: what happens in any one corner of the globe will increasingly affect, and be affected by, people and events elsewhere . . . We live, like it or not, in an era of global interdependence . . . Global education is the lifelong growth in understanding, through study and participation, of the world community and the interdependency of its people and systems . . ." (Getting Started in Global Education, Collins and Zakariya, Michigan Department of Education).

". . . Global perspective is the ability to view issues and problems as a citizen of the planet. . ." (Preparing Students for the Twenty-First Century, Irvine Unified School District). The most effective way to learn about our world and its various cultures is to experience them by traveling to other countries.

This collection of materials is based on and prepared from experiences and information that was researched and gathered in relation to a study-trip to Japan sponsored by the U.S.-Japan Education Group, October 3-21, 1983. The sources of information included in this packet include the following: 1.) outlines of "live" addresses delivered to the 10 American educators on the study-trip by various persons from the Japanese government, Japanese industry and Japanese businesses; 2.) extracts from publications given to the study team from the Japanese organizations that were visited; 3.) articles taken from Japanese newspapers during the trip; 4.) articles from American newspapers and magazines; 5.) charts and graphs from both Japanese and American sources; and, 6.) extracts from the book, The Japanese Mind, Robert Christopher, 1983.

All of the material is organized under goal headings and is intended as a resource packet for use by teachers and students. How the materials are used is left to the discretion of the teacher, depending on the grade level being taught, the subject area that the material is adapted to, and the ability level of the students. I have used selected materials from the packet in different curriculum settings: 9th grade World Regional Studies - relating specifically to Japan and her economic setting as a nation and her place in the international economic scene; and also in 12th grade Political Science - relating to our study of comparative economic systems operating in the world today.

Some of the materials would probably be best used as background resources for the teacher; other parts can be duplicated or extracted for use by the students in a class setting. The teacher should pay particular attention to the outlines taken from the "live" addresses given by various Japanese during the study-trip. This is valuable primary source information from individuals directly involved in the workings of the Japanese political-economic system. (Goal #4 from the original proposed project: To engage in person-to-person contacts with official and unofficial representatives of Japan for the purpose of seeing first-hand the life and culture of Japan.) The other materials are secondary sources and should be used to add background, perspective and analysis of the political and economic workings of the contemporary Japanese system.

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A note of sincere thanks to the following:

1. U.S.-Japan Education Group for a trip of a life-time!
2. Irvine Unified School District Superintendent Corey, Assistant Superintendent Waldfogel, Assistant Superintendent Richards and Curriculum Coordinator Mulholland for their encouragement and support.
3. Principal Cops and Assistant Principal Mills for their encouragement and support.

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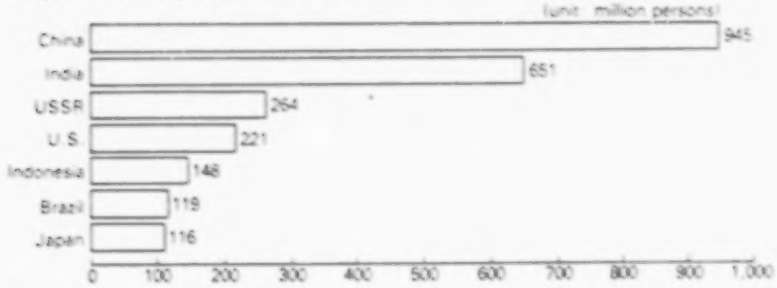
B. Population

B-1. Total Population and Population Density

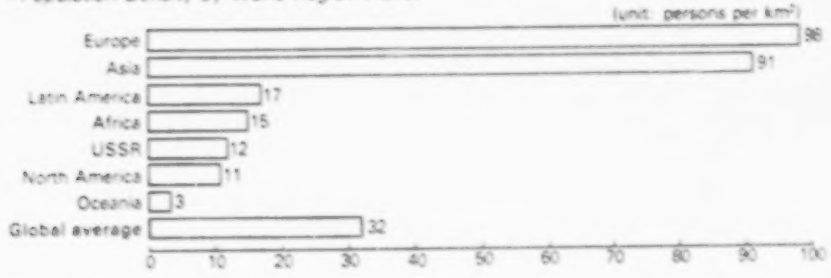
Japan's total population as of October 1, 1980, stood at 117,057,000, making Japan the seventh most populous nation in the world. Its population density, about 314 persons per square kilometer as of 1980, is high internationally.

• *Population of Major Countries (1979)*



Source: *Demographic Yearbook*, U.N., 1980

• *Population Density by World Region (1979)*

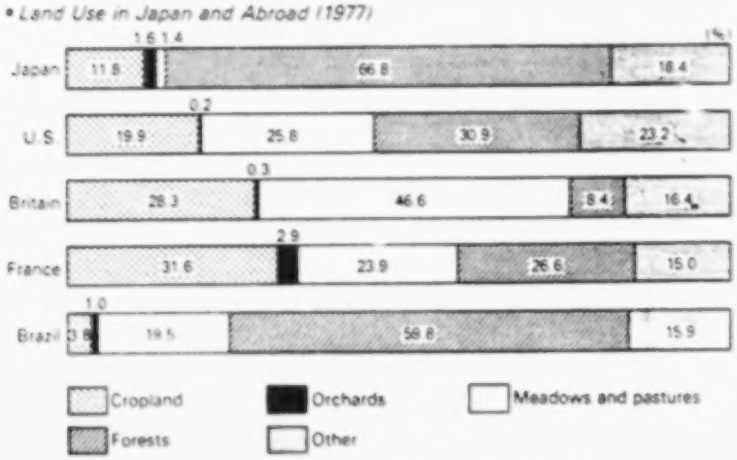


Source: *Demographic Yearbook*, U.N., 1980

A-5. Land Use

About four-fifths of Japan is mountainous. Japan is rich in forests, and the ratio of forests to the total land area is relatively high internationally. However, the ratio of grassland to the total land area is relatively low. Because the land where people can live is limited and the population is large, the population density of habitable land far surpasses that of other countries.

• *Land Use in Japan and Abroad (1977)*



Source: *Kokusai tokei-shiryo* (International Statistics Manual), Prime Minister's Office, 1980

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Goal #1: To understand the underlying values that are important to contemporary Japanese society.

To understand any culture and how the institutions of that culture function it is important to understand the underlying values that that culture deems essential. The cultural values explain how and why the people of the culture behave and act the way they do.

The following viewpoints explain and illustrate the values of Japanese society:

A. Address by Mr. Miyai, Showa Yokkaichi Sekiyu Company, October 20, 1983.

B. The Japanese Mind, Robert Christopher, 1983 (excerpts).

C. Address by Mr. Nakajima, Ministry of Education, Science and Culture, October 6, 1983.

D. "How Japan Does It", Time, March 30, 1981.

E. Public Opinion Polls, various Japanese governmental agencies, 1980-1981.

Notes from an Address by Mr. Jinnosuke Miyai, President, Showa Yokkaichi Sekiyu Co., Ltd. Tokyo - October 20, 1983.

1. Japanese business pattern has changed significantly in the last 30 years - textiles now produced in South Korea and Taiwan - high energy cost in Japan.

2. Basic Japanese mentality has not changed so rapidly (business mentality) - a change in the business outlook does not necessarily mean a change in the behavior mentally.

3. Japan is more competitive in certain, specific areas: autos, TV, video, etc.

4. "Light industries" - "The New Japans" have taken over (South Korea, Taiwan, Hong Kong, Singapore) - even in ship building Japan is no longer a leader.

5. Problems facing Japan: lack of raw materials / projected higher unemployment / increase in defense costs.

6. There are differences between Japanese and Western management: organizational concept / management style / decision-making process / ways of responding to problems.

7. There are different concepts and values operating in the two societies - Japan and the United States:

Japan	United States
A. Harmony	A. Friction
B. Avoid differences	B. Promote differences
C. Indirectness	C. Directness
D. Feeling	D. Rational Analysis
E. Homogenous - happy with this.	E. Heterogenous - proud of this.

8. Systems Operating in Japanese Business/Society:

   A. Group Consciousness: profound sense of unity, national consciousness, agreeing on goals and carrying these out, making the group successful, identity is with the company (vs. individualiism in Western societies).

   B. Single Class Society: majority of people feel that they belong to the middle class (very poor are few - no Rockefellers), homogenous society, company includes all employees, no class lines, small salary gap between top and bottom.

   C. Lifetime Employment and Seniority System: people are committed to the group they are a part of and are promoted according to length of service, this does not discourage the youth because they know they will be promoted, there is a screening system that does operate in regards to the most capable and less capable for top positions.

6

Mr. Jimmosuke Miyai - Showa Yokkaichi Sekiyu Co., Ltd.

D. Collective Decision-Making Process: "Ringi System" = consultation, many decisions come from the middle, pass up through the hierarchy and then down = consensus.

E. Hard Working: "workaholics", sacrifice family for business (without financial incentive.

F. Family Concept in Business: points #1-5 of this address promote this idea.

G. Trade Unions: forms a part of the "family", organized on a company basis not a trade idea as in the USA, even if "fight" for wages, etc., they still have a shared goal with management = "health" of the company = if the company fails, all loose.

H. Management Commitment to Employees and Patronage Tradition: management expected to look after all employees, patronage = welfare of the people.

I. Factionalism: rivalries in leaders - patronage helps promote - because of loyalty to leader by followers.

J. Political Stability: this has helped to promote the economic success of Japan.

K. Administration: government relationship to business = consensus seeking and consultation - MITI tries to build national consensus - administrative guidance not law or order but influences through consensus building - close relationship between government and business because business has people who have been in government = provides very effective communication between the two.

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Excerpts from "The Heart and Mind of Japan" (chapter 2), The Japanese Mind, The Goliath Explained, Robert C. Christopher, Linden Press/Simon & Schuster, New York, 1983.

The first necessity for anyone who wishes to understand Japan is to establish an overall framework that will help to make sense of the countless specific manifestations of Japan's "differentness."

The framework that Mr. Christopher has constructed for himself over the years involves seven basic propositions (each is listed below with a brief explanation from the author, but are more fully developed in chapter 2 of the book):

1. The Japanese language is so complex that it has been called "the Devil's language." Since the Japanese as a people distrust and shun straightforward verbal communication, this suits them just fine. (page 39)

   -Japanese does not have the kind of close kinship with any other language that English has with German or Spanish with French.

   -When a foreigner sets out to learn Japanese, there is little useful carry-over from his own language, whatever it may be. And the same is true in reverse for the Japanese.

   -More troublesome yet, present-day Japanese is essentially the offspring of a highly unsuitable marriage between the original unwritten Japanese language of fifteen centuries ago and archaic Chinese.

   -Roughly speaking, the blending of them that has occurred in Japan is comparable to the result you might get if you decided to write English in Arabic script and to create compound words in spoken English by jamming together three or four syllables from medieval Arabic.

   -Written Japanese is quite certainly the most difficult system of written communication in general use in the contemporary world.

   -The Japanese language has fewer sounds than any other major language and therefore has to ascribe a lot of meanings to the few it does have. . . The upshot of all this is that when one uses a particular sound or set of sounds in conversation, it may or may not be clear from the context what meaning was intended.

   -In their conversations with each other-- and more often than not in their conversations with foreigners--Japanese religiously shun explicit, carefully reasoned statements in favor of indirect and ambiguous ones basically designed not to communicate ideas but to feel out the other person's mood and attitudes. As the Japanese see it, plain speaking has one overwhelming drawback: it tends to commit the speaker to a hard-and-fast position, and thus can easily provoke direct confrontation -- which all Japanese dread.

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"The Heart and Mind of Japan", Robert Christopher (page 2)

2. Racially and culturally, Japan is the most homogeneous of the world's major nations -- which is a prime reason Japanese have been able to Westernize their society yet still preserve a keen sense of their own special identity. (page 44)

-The bulk of the progenitors of the modern Japanese were Mongoloid peoples who apparently came to the islands from northeast Asia by way of Korea. . . And over the centuries these immigrants intermingled with and almost totally absorbed the original inhabitants of the Japanese islands. . . Not since the eighth century A.D. has there been any major new element injected into the Japanese gene pool -- which means that for more than a thousand years a great ethnic blender has been whipping the originally diverse components of the Japanese race into a single uniform substance.

-Probably even more important than the ethnic unity of the Japanese, however, is the fact that until quite recent times Japanese society and culture developed in comparative isolation. This is by no means to say that the Japanese nation somehow emerged from a vacuum, uninfluenced by external forces. Its system of writing is only a part of the enormous cultural debt Japan owes China. . . Of all the Japanese importations from China, the most enduring in their influence were spiritual and intellectual. . . Buddhism, from China, rapidly became the dominant faith in Japan . . . Another gift from China was Confucianism, essentially an ethical system, with its emphasis on loyalty, personal relationships and etiquette and with the high value that it places on education and hard work. . . Japan throughout most of its long history escaped having alien institutions and cultures imposed on it by force . . . All of them were accepted voluntarily.

-Under the highly centralized government of the Tokugawa shoguns the Japanese developed a strong national consciousness -- a deep-seated awareness of and pride in their unique identity as a people.

-Because of the internal strengths they developed during their two centruies of isolation, the Japanese, unlike so many other Asian and African peoples, acquired a vital ability: instead of swallowing destabilizing and often unsuitable Western ideas and institutions whole, they were -- and still are -- remarkably successful in adapting importations from the West to their own needs and imperatives.

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"The Heart and Mind of Japan", Robert Christopher (page 3)

3. Though Japanese rarely admit it, their society is an exclusionary one. The only way to win complete acceptance by Japanese is to be born into their tribe. (page 49)

   -While it is possible -- though not particularly easy -- for a foreigner to acquire Japanese citizenship, it is not possible for an immigrant or the children of immigrants to "become Japanese" the way such people can "become American." The way you get to be Japanese is the same way you get to be Zulu or Shona in Africa: you have to be born into the tribe. For that is what the people of Japan -- or at least more than 97 percent of them -- really are: members of a single great tribe united not just by common citizenship or common language but by common bloodlines, common racial memory and common tribal codes, some of which stretch back into prehistory.

4. Far more than the citizens of most collectivized societies, Japanese are dominated by a sense of responsibility to the various groups to which they belong -- their country, their company and so on. Paradoxically, this helps to account for their drive and efficiency. (page 51)

   -To the Japanese themselves their society seems constantly threatened with a staggering variety of catastrophes: typhoons, earthquakes, the lreationship of the archipelago to the ocean, its proximity to such titans as China and the Soviet Union.

   -Because of Japan's almost total dependence on imported energy and the fact that it possesses so few of the other resources required by modern industry, Japanese never forget that any prolonged interruption of their imports -- or for that matter, foreign rejection of the Japanese exports that pay for those imports -- would thrust Japan back into an economic status roughly comparable to that of Yemen.

   -. . . These fears, serve to reinforce other important aspects of the Japanese character: tribal values, Confucian ethics and a heavy emphasis on hierarchy and loyalty stemming from the fact that feudalism survived in Japan until little more than a century ago.

   -Betwen them, all these factors have produced a society in which the individual's responsibility to the group assumes a preeminence it does not have in any Occidental nation. . . In Tokyo, Service is swift, efficient and courteous because waiters and salesclerks would be letting down the group to which they belong if they performed their jobs badly. . . Both failure and success are team affairs in Japanese eyes, and every member of a team, regardless of the quality of his personal performance, must share in the onus or the glory earned by the team as a whole.

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"The Heart and Mind of Japan", Robert Christopher (page 4)

5. Japanese abhor direct personal confrontation and, to avoid it, almost always operate by consensus. Though often a handicap, this is also a source of strength. (page 53)

   -Probably the single most important thing to know about Japanese is that they instinctively operate on the principle of group consensus. For an individual to achieve self-gratification at the expense of the collective welfare is regarded as unspeakably reprehensible, and individual self-assertion in almost any form is rigorously discouraged. . . Only in very rare cases does an individual, however brilliant or charismatic, unilaterally make decisions for an entire group or organization. Under normal Japanese practice, before a group is committed to any new course of action, all its members -- or at least, all those with any claim to competence in the matter -- must have examined the proposal and acceded to it.

   -The manner in which such a consensus is achieved is through a cautious feeling-out process involving all the people legitimately concerned with an issue, a highly tentative process in which no firm stands are openly taken and argument is implicit rather than explicit. . . From a Japanese point of view, the overriding advantage of this indirect approach is that it all but rules out the possibility of direct personal conflicts.

   -For all its drawbacks, this system has one great merit: by performing the function known to American businessmen as "getting everyone on board," it ensures that once a course of action has been agreed upon, it can be executed rapidly and with a minimum of the foot-dragging and intramural sniping that often impedes the progress of our own institutions.

6. Since their primary commitment is to the well-being of their tribe rather than to ideology or religion, Japanese find it easier than most peoples to accept change -- and sometimes do so simply so that Westerners won't think them "backward." (page 55)

   -In their heart of hearts, the Japanese people as a whole have only one absolutely immutable goal -- which is to ensure the survival and maximum well-being of the tribe.

   -. . .A truly Japanese society -- like truly Japanese behavior -- is whatever the Japanese consensus holds it to be at any given period.

   -. . . This flexibility has been one of the cornerstones of Japan's survival and economic success. It serves at least in part to explain the fact that the Japanese were able to adjust to the massive changes imposed upon their society by the U.S. Occupation without something approaching a national nervous breakdown. And certainly, it has contributed greatly to what we have already seen to be one of Japan's great strengths -- the relative ease with which the Japanese absorb and adapt ideas, practices and technologies from abroad.

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"The Heart and Mind of Japan", Robert Christopher (page 5)

-Another motive for Japanese borrowing from the West has always been the fear that foreigners will dismiss Japan as a "backward" nation. To avoid that humiliation, Japanese society, or at least some element within it, picks up almost every new social or intellectual trend that appears in the United States . . .

7. Despite their readiness to adopt foreign ideas, institutions and techniques, most Japanese don't welcome too much personal contact with foreigners and, in their hearts, feel superior to the rest of the world. (page 57)

-While foreign visitors to Japan are typically treated with great courtesy and hospitality, any Westerner who concludes from this that he can move easily into the mainstream of Japanese life is making a serious mistake. Though there are increasingly numerous exceptions to the rule, the majority of Japanese still find personal dealings with foreigners something of a strain.

-There is a subliminal fear that a foreigner who seeks to penetrate Japanese society is, in a sense, spying into things that properly concern only the members of the tribe. But is also reflects a rarely articulated but deeply rooted conviction that "we Japanese" are the pick of the human crop. . . There is a kind of arrogance which holds that there are three ways to do things: the right way, the wrong way and the Japanese way.

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Notes from Address from Mr. Akio Nakajima, Director, Upper Secondary School Education Division, Ministry of Education, Science and Culture - October 6, 1983

1. Students start school at age 6 - attend 12 years (6 years in elementary school, 3 years in lower secondary and 3 years in upper secondary school.

2. Entrance to universities is by very difficult examinations - graduates from the prestigious universities (example: Tokyo University and Kyoto University) are in demand by business and industry.

3. There is a national curriculum, national standards and national textbooks for the schools.

4. National universities are the highest levels - private universities are lower levels.

5. Funding for schools comes from the national government and from the prefectures (there are 47 prefectures in Japan - these are like counties in the USA).

6. Teacher make-up by sex:
   elementary = 55% female - 45% male.
   lower secondary = 30% female - 70% male
   upper secondary = 17% female - 83% male

7. Very few women in administration - in the Ministry of Education there are 60 positions - only 2 are held by a woman. In the 33,000 elementary schools are only 500 women principals.

8. Elementary curriculum and lower secondary curriculum: Japanese language, Social Studies, Arithmetic, Science, Music and Art, PE, Moral Education, English in lower sec.

9. Upper secondary curriculum: Japanese language, English, Mathematics, Science, PE, Social Studies, a few electives.

10. The Japanese nation is very "homogenous - makes for acceptance and uniformity.

11. The #1 suggested change needed in the Japanese educational system is "creativity".

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How Japan Does It

As scholars of Japan's business and economic triumphs are now learning, much of that country's success traces back to cultural traits as old as Japan itself. They have helped it survive through a history marked at every turn by the need to function in a world of scarce resources. Those key national traits:

EMULATION. Few nations have so sought out and used the best from other societies as Japan. In a sense Japan has become "the best of all possible worlds." Examples abound of the copycat-Japan theme. In 1543 shipwrecked Portuguese mariners went ashore on the Japanese island of Tanegashima and traded a few firearms in return for food and water from the locals, who had never before encountered either Westerners or their weapons. Thirty years later one of the sailors returned to the island, and this time found the populace armed with 20,000 guns, each an exact replica of that original weapon.

In Japan's early postwar rush to rebuild its economy, the nation's businessmen searched the globe for patents and industrial technologies. In 1953 the Sony Corp. paid Western Electric a mere $25,000 for the non-exclusive rights to manufacture the transistor, and thereafter built the investment into an entire microelectronics industry.

Japanese businessmen today still descend on foreign executives to learn, often in the most excruciating detail, exactly how they conduct business. The nation has an insatiable hunger for foreign technical and scientific manuals. Universities and corporations stockpile them and refer to them assiduously, and businessmen and engineers eagerly use their best ideas.

CONSENSUS. For all their cross-cultural borrowing, the Japanese have remained astonishingly unchanged. One of the most important of their native characteristics is a willingness to achieve consensus by compromising. Asian Scholar Edwin Lee of Hamilton College suggests that a clue to this might be found in the Japanese word *ie*, a concept that can be interchangeably applied to everything from self to home to family. A person is an extension of his immediate family members, his company, his community and his nation as a whole. All are bound together in an encompassing common purpose.

Japan feels itself to be a "family" because in a real sense nearly everyone has at least some voice in running society. No matter what the group—from the smallest upstart enterprise to the largest multibillion-dollar multinational—nothing gets done until the people involved agree. The Japanese call this *nemawashi* (root binding). Just as a gardener carefully wraps all the roots of a tree together before he attempts to transplant it, Japanese leaders bring all members of society together before an important decision is made.

The result is an often tedious, and sometimes interminable, process of compromise in the pursuit of consensus. But in the end the group as a whole benefits because all members are aligned behind the same goal.

FUTURISM. Japanese society is forward looking in a manner that is difficult for Westerners to understand. Individuals are seen to benefit only through the elevation of the group as a whole; corporations are not after the quick payoff or big quarterly jumps in shareholder dividends, but a solid market position that will be rewarded over the longer term. Businesses and government look five, ten, even 20 years ahead and try to build a prosperity that can last. Says Eishiro Saito, president of Nippon Steel: "Executives in Japan must constantly do their utmost to provide employees and their families with a stable life and hope for the future."

One reason that the companies are not under constant pressure for fast profits is that much of Japanese industry is owned by banks and not by individual shareholders. Major holdings of many of the country's biggest and best-known companies, such as Toshiba, Fujitsu and Nippon Steel, rest with banks that are less interested in short-range dividend increases than in seeing their firms' profits reinvested to ensure future growth.

This long-haul mentality is reflected in Japan's dedication to savings. Nothing has given more momentum to the Japanese economic juggernaut than the propensity of its citizens, no matter how wealthy or modest their means, to save their money. Their deposits have given the nation's industry the capital it has needed to keep Japanese plants modern and productive. Says James Abegglen of the Boston Consulting Group, which has conducted numerous studies on Japanese business: "The thing that has enabled Japan to get to the top and stay there is savings. Savings of all kinds—government, corporate, personal." During 1980, Japanese workers saved an estimated 20% of their individual and family incomes, more than three times as much as the Americans.

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QUALITY. Two decades ago the words Made in Japan were synonymous with shoddy workmanship, and Japanese products were marketed mainly in 5¢ and 10¢ stores. Yet today firms like Sony and Datsun sell their products principally on the basis of high standards. Says Masao Kanamori, president of Mitsubishi Heavy Industries: "The existence of our company would be impossible if we failed to reassess our performance in quality, production and cost."

This change is a result of the country's preoccupation with quality control, a management concept that until quite recently had been insufficiently considered in the U.S. Yet it was American academics who helped the Japanese improve their products and change their image.

In Japanese plants and factories, workers are not only encouraged, but actually expected, to make quality control their top priority. At Matsushita Electric, the country's second largest electrical company (1980 sales: $13.7 billion), workers are instilled with the notion that each one of them is a quality-control inspector. If they spot a faulty item in the production process, they are encouraged to shut down the whole assembly line to fix it. Pressure to improve quality reaches beyond the shop floor and often pits entire plants of competing companies like Hitachi and Sony in furious statistical battles to produce the lowest defect rates for products.

COMPETITION. While Western businessmen often regard Japan as a giant cartel, competition is actually fierce. Japan's thriving domestic market is the principal battleground for most Japanese companies. The products shipped abroad have such high quality and low price in large part because they have already survived the domestic Japanese market. In 1955, for example, the leading motorcycle company in Japan was Tohatsu, while Honda was a distant No. 2. By 1964 the more competitive Honda dominated the local market and Tohatsu had begun moving into other fields. Today the company is principally a manufacturer of small engines and snowmobiles. Says one American economist living in Japan: "Their idea of competition is different from ours, yet they compete furiously. It is all done within the context of being very Japanese —orderly."

Taken together, these five qualities have furthered a national spirit of compromise and cooperation and a willingness to endure short-term setbacks for the long-term good of the nation, company or family as a whole. Says Shiro Miyamoto, an official of the powerful Ministry of International Trade and Industry: "Our system is born of the traditions and history of this country, a small nation with few resources. Without our way of doing things, there would be continual conflict and nothing would ever get done."

When these Japanese characteristics are brought into the modern factory, the result is a smoothly functioning enterprise that produces quality goods. This is most clearly seen in the easy working relationship of management and labor. Japan has fewer strikes and less labor unrest than any other major industrial power. In 1978 Japan lost 1.4 million workdays because of strikes, while the U.S. lost 39 million.

To a Japanese worker, his company is not an oppressor but rather the source of his income and the expression of his place in society. Says Ryutaro Nohmura, 57, who owns a tentmaking firm in Osaka: "Employees in Japan view their company as an extension of their family life. Indeed many of them equate the importance of their company with that of their own life."

The workers trust their bosses to make the right decisions because there is a pervasive sense that both labor and management are working together. In Japanese companies, as a general rule, managers rise from within the corporate ranks adding to the feeling of camaraderie and shared experience. Says Yoichi Takahashi, head of Hitachi's 70,000-strong labor union: "Everything depends on dialogue and trust. What is good for the company is good for the union. The workers know that their labor is what makes the company prosperous." Adds Noboru Yoshii, a senior adviser of Sony Corp.: "There is little opposition between management and workers because every manager comes up the ladder from employee. We do not call our employees workers or laborers, but associates instead. One reason everyone at Sony wears the same blue-gray jacket is that we are saying Sony is a *working* company, a blue-collar company all the way from the top to the bottom."

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U. Public Opinion

U-1. Social Attitudes

• *What are you proud of about Japan?*

(Multiple response, %)

Long history and traditions	28
Hard working and talented people	28
Beautiful land	26
Superb culture and arts	18
High educational standards	17
Kindness of the people	17
Economic prosperity	16
High level of science and technology	15
Social stability	12
People's sense of duty	11
National unity	4
Other	1
Nothing, don't know	16

Source: *Shakai-shiki chosa* (Survey on Social Awareness), Prime Minister's Office, May 1981
Note: Survey conducted in December 1980

• *Prevailing Mood of the Times*

Positive aspects	(Multiple response, %)
Peacefulness	66
Stability	21
Vigor	8
Comfort	7
Cheerfulness	7
Sense of responsibility	5
Solidarity	3
Compassion	3
Others	1
Nothing in particular	9
Don't know	7

Negative aspects	(Multiple response, %)
Irresponsibility	39
Egocentrism	36
Changes too rapid	23
Restlessness	20
Unease and irritability	16
Feeling of discontinuity	10
Languor	10
Gloominess	3
Others	1
Nothing in particular	5
Don't know	7

Source: *Shakai-shiki chosa* (Survey on Social Awareness), Prime Minister's Office, May 1981
Note: Survey conducted in December 1980

• *Which of the following six categories best describes your current standard of living?*

(%)

Category	1972	1975	1978	1981
Upper upper	0.4	0.8	0.9	0.9
Lower upper	2.1	3.0	4.8	4.1
Upper middle	35.0	43.4	49.3	44.3
Lower middle	38.2	35.3	31.7	34.9
Upper lower	12.2	7.4	7.0	7.8
Lower lower	3.7	2.4	2.0	3.3
Don't know	8.4	7.7	4.3	4.7

Source: *Kokumin seikatsu senkodo chosa* (Survey on People's Preferences), Economic Planning Agency
Note: This survey, which has been conducted every three years since 1972, will be done again in 1984

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U-4. Diplomacy

• *With which nation or group of nations should Japan maintain the closest relations?*

(%)

	August 1979	May 1980	May 1981
U.S.	29	32	38
China	20	24	16
All countries	14	14	11
Middle Eastern nations	4	3	4
West European nations	–	–	2
USSR	1	1	2
ASEAN nations	–	–	1
Republic of Korea	1	1	1
Other	2	2	3
Can't say	10	9	5
Don't know	19	14	17
Total	100	100	100

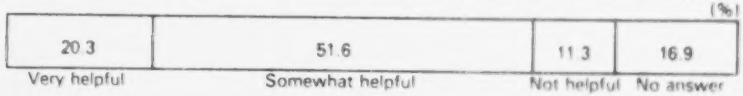
Source: *Gaiko ni kansuru seron chosa* (Survey on Japan's Foreign Policy), Prime Minister's Office
Note: Respondents numbered 2,359 in August 1979, 2,400 in May 1980, and 2,315 in May 1981

• *With which Asian nation or nations should Japan maintain the closest relations?* (Multiple response, %)

	August 1979	May 1980	May 1981
China	70	74	72
Republic of Korea	37	36	41
India	19	16	20
Philippines	10	8	11
Indonesia	9	8	11
Singapore	4	4	7
Thailand	5	5	6
Vietnam	3	3	4
Burma	3	2	3
Other	34	32	34

• *Do you think the Japan-U.S. security treaty is helpful to Japan's security?*

(%)



• *Do you foresee a possibility of Japan's being invaded by a foreign country in the near future?*

(%)

Source: *Anpo boei mondai ni kansuru seron chosa* (Public Opinion Survey on the Problem of Security and Defense), Yomiuri Shimbun Sha, September 14, 1981
Note: Survey was conducted among 2,118 persons in August 1981

• Attitudes of Young Employees Toward Work

In March and April 1981, the Japan Productivity Center and the Junior Executive Council of Japan conducted a joint survey among the employees of 82 firms. The 2,067 employees (1,293 men and 774 women) were all in their third, fourth, or fifth year of employment at their respective companies. They were asked a battery of questions to discover their attitudes toward work. Selected survey results were published in June 1981 in *Hataraku koto no ishiki* (Attitudes Toward Work), which is the source of the following data. This survey has been conducted annually since 1974.

What type of employee do you want to become? (%)

	Male	Female	Total
The type that takes the lead in the company and works energetically	18.9	4.4	13.4
The type that has know-how and practical ability	27.4	15.1	22.8
The conscientious type that has a strong sense of responsibility	23.7	25.1	24.2
The well-informed type that enlivens the office	17.9	30.9	22.8
The kind type that is on good terms with everyone	8.3	21.6	13.3
The type that puts a higher priority on his/her private life than on work	3.8	2.6	3.3
No response	0.1	0.4	0.2

What is most important for success? (%)

	Male	Female	Total
Social status/parentage	1.5	1.2	1.4
Individual ability	25.5	27.8	26.4
Individual effort	53.5	53.7	53.6
Schooling	2.1	2.1	2.1
Luck	17.3	15.2	16.5
No response	0.1	0.0	0.0

When do you feel most worthwhile at work? (%)

	Male	Female	Total
When I've done some work well	25.4	16.4	22.0
When I have good superiors	2.5	2.2	2.4
When my work is recognized as important	11.2	12.3	11.6
When I'm given responsibility	11.4	11.8	11.5
When I develop new schemes	2.1	0.5	1.5
When I feel I'm making progess	20.7	16.7	19.2
When my work is interesting	19.3	27.4	22.3
When I get along well with my coworkers	2.2	7.0	4.0
When I receive good wages and fringe benefits and am able to work in a pleasant environment	1.1	1.0	1.1
When I am promoted	0.7	0.3	0.5
When my company is doing well	1.1	0.6	1.0
Other	2.2	3.7	2.8
No response	0.2	0.1	0.1

Do you want to stay with your present company until you reach mandatory retirement age? (%)

	Male	Female	Total
Yes	19.2	2.3	12.9
No, only for the time being	23.6	23.3	23.5
It depends on various conditions	44.1	59.8	50.0
I don't know	12.9	14.3	13.4
No response	0.2	0.3	0.2

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Goal #2: To understand how Japan has risen from an "occupied country" (1945-1951) to an industrial giant in the world today.

The economic recovery of Japan following World War II has been significant. rollowing Japan's defeat in 1945, her economic productivity lay in ruins. With economic aid from the United States, along with a value system that stresses group endeavor and hard work, Japan rebuilt her economic system. During the last 30 years she has become one of the world's leading industrial nations.

The following viewpoints explain this economic recovery:

A. Postwar Economic Recovery.

B. "The Art of All They Do", Time, August 1, 1983.

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Postwar economic recovery

No less astonishing was Japan's recovery from the virtually complete devastation of the country's economy during the war. American troops entering Japan immediately after the capitulation found every major industrial center a wasteland of ash and rubble. City dwellers who had been evacuated to the countryside returned to find whole neighborhoods reduced to featureless deserts in which they were unable to find where their homes once stood. Of the larger cities, only Kyoto had been spared because of its special character as a national repository of cultural treasures. Eighty percent of the nation's productive capacity had been destroyed. American submarines had sent the bulk of Japan's shipping to the bottom of the Pacific. Food was in extremely short supply. The empire was deprived of nearly half its territory, and the overcrowded main islands would soon be further burdened by the return of more than 4.4 million overseas Japanese under an American-directed repatriation program.

Still intact and undaunted was the Japanese spirit. As the American soldiers settled in for the occupation, legions of Japanese women dressed in the shapeless jumpsuits that had become standard wartime wear roamed the desolated cities with wheelbarrows to clear the rubble for rebuilding. Reconstruction proceeded through several stages: first the makeshift huts of scrap lumber, then the jerrybuilt structures of wood and stucco, gradually upgraded until the redeemed cities took on the glossy appearance of urban Japan today.

The recovery process was helped by the infusion of American economic aid amounting to nearly $2 billion between 1945 and 1950. Food sent from the United States under the assistance program immediately after the end of the war averted a probable near-famine. The yen, generated by the distribution of relief goods, furnished the capital needed to restore the bombed-out industrial establishment. In rebuilding, the Japanese replaced obsolete machinery with the most modern equipment, thus skipping a generation in upgrading the country's productive capability. The American commitment to defend an unarmed Japan enabled the nation to concentrate on restoring the economy, without the added burden of replacing the costly military establishment lost in the war.

The expanding American military establishment in the Far East, with the occupation force as its core, provided a growing outlet for Japanese industry as well as employment for thousands of drivers, guards, clerks, maids, machinists, and other workers. The former Japanese naval base at Yokosuka became a major facility for the United States Seventh Fleet, whose immediate task was to patrol the Taiwan Strait against any attempted crossing by Communist Chinese forces. Okinawa became a huge American air base. U.S. tactical air power was deployed at fields all over Japan.

On June 25, 1950, North Korean forces invaded the South, and the United States found itself in another Asian war. The need of the American military for all sorts of supplies from the source closest to hand furnished the needed rejuvenation of Japanese industry. And the hard-working, systematic Japanese were not found unprepared. The same aircraft technicians who had developed the famous Zero fighter used with devastating effect in the early days of World War II had been quietly keeping abreast of developments in the art of airplane manufacture. The Japanese automotive industry, obliterated in the war, was beginning to struggle back through the efforts of men like Soichiro Honda, whose surname would soon become synonymous with fine Japanese motorcycles and small cars, and the future makers of the Toyotas, Datsuns, and other Japanese passenger vehicles that would become known around the world. The manufacturers of the Canon and Nikon cameras, the Sony and Matsushita electronic wares, and other innovative product lines were already preparing to enter international markets. The economic spin-off from the Korean War provided the capital structure enabling Japan to launch its recovery at top speed.

Return of the *zaibatsu*

Japan's economic takeoff gathered momentum toward the end of the 1950s. By then the controversial "purges" ordered by the occupation command, in which all Japanese deemed to have played an operative role in prosecuting the war were removed from authority, had become an almost forgotten episode in history. The banished

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zaibatsu, as the prewar big-business combines were called, began to regroup under a new class of professional managers who replaced the old family control. In the common zeal to mend the tattered economic fabric of the nation, the private sector achieved a high degree of integration with official policy. The government regulated the money market through the powerful Bank of Japan. Appropriate ministries, particularly the Ministry of International Trade and Industry — generally referred to in English and Japanese alike by the acronym MITI — periodically issued business advisory notices, called "administrative guidance," that had almost the force of law.

While Japanese business practice included lively competition both at home and abroad, it often seemed to the foreign entrepreneur that their competitors from Japan presented a united front. "You don't just compete with a Japanese company but with all Japan," an American complained. Thus the concept appeared of a monolithic combination of business and government that came to be known as "Japan Incorporated." The justice of the image is denied in Japanese business circles, where official regulation is highly unpopular. In any case, such giant conglomerates as the Mitsui, Mitsubishi enterprise, among others, became formidable global competitors in leading areas of manufacturing and commerce. So many Japanese businessmen were stationed abroad that the foreign office in Tokyo established a program to organize schools in other countries so that children could be educated in their native language and thus qualify for admission to Japanese universities, a prerequisite for success.

A generation after the war, Japan had become the world leader in shipping, stood second in automobile manufacturing, and third in steel output. The total national industrial production was exceeded only by the United States and the Soviet Union. The wage level of Japanese workers surpassed the standard in many European countries. Armed with the superior purchasing power of the yen, the ubiquitous Japanese tourist became the world's biggest spender among ordinary pleasure travelers. Owning the coveted "Three C's" — car, color television, and conditioner (air) — became an attainable goal for the average family. Unemployment was negligible under the traditional system of guaranteed lifetime work for the same company, once hired.

Japanese economic success was achieved in spite of an almost complete absence of natural resources. Virtually all the raw materials for manufacturing, as well as the oil to fuel the factories, run the vehicles, and heat the buildings during Japan's raw winter, must be imported (there are extensive veins of low-grade coal, but the quality is so low and natural conditions make the mining so costly that it is cheaper to import a superior product from West Virginia). Once a largely agricultural nation, Japan has been forced to import much of its food since its own industrial revolution shifted population from field to factory. Today the Japanese have to live on their skill in manufacturing, to which they bring an extraordinary degree of competence, and their zeal in selling. "Export or die," the Japanese say. The validity of this aphorism is proved periodically when various market factors produce a shortage of raw materials or a decline in demand, and the country sinks into one of its cyclical recessions.

Once known as a nation of copiers, turning out cheap gimcrackery and shoddy souvenirs, the Japanese have become outstanding innovators in high technology. Leaving simpler manufacturing to "developing countries" like South Korea, Taiwan, and Singapore, among its nearer neighbors, Japan has become a leading purveyor of sophisticated machinery. It specializes in such fields as constructing monster supertankers and shipping entire factories abroad. Success in the world marketplace enabled the Japanese to survive the shock of successive steep rises in the price of Middle Eastern oil, on which Japan is more heavily dependent than any other country.

It has been said that Japan has only two abundant natural resources: rain and people. In the latter lies the secret of the country's amazing success. The answer to the puzzle of Japan is visible on the streets of a city like Tokyo at the beginning of any working day, as millions of neatly dressed, earnest-looking workers stride purposefully toward their assigned places in factory or office. Quiet in demeanor and conservative in appearance even when modish, they personify the efficient, hard-working new Japan.

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The Art of All They Do

A world of infinite desires in finite time and space

For a thousand years, the Japanese have been working on a problem that Americans are only now beginning to see: How can you make a culture of congestion work, and turn constriction to advantage? The main cultural myth of America centers on infinite space, limitless resources, and the energies they foster. Without these, such diverse cultural emblems as *Moby Dick*, '50s tail fins, westerns and the paintings of Jackson Pollock would not exist. Neither would those words in the Declaration of Independence, so bizarre to the Japanese, about pursuing happiness. When they find their space is finite, their resources limited and their social energy grossly deformed by the friction of overcrowding, Americans get confused and resentful; they see the world in terms of rights, whose scope is truncated by congestion.

The Japanese, who see their world in terms of duties and obligations, have learned to do so because they have always had to live with constraint. If you live on an island (to paraphrase an English poet who did) you cannot be one. The Japanese have evolved a whole system of forms, etiquette and images, a culture that makes the compression of numbers tolerable. It strikes an endlessly interesting balance between artifice and nature. The three legs of this system are adaptation, consensus and miniaturization.

It is a common fantasy of Westerners that there was once an Old Japan (samurais, geishas, moon watching from the *tatami*) that was destroyed after 1945 by the trauma of Westernization, so that the New Japan ceased in some basic way to be Japanese. Nothing could be further from the truth. What the Japanese do, and always have done, is much more subtle. They adapt what they need from other cultures. They seem always to be submitting—sometimes masochistically—to cultural colonizations, of which the American is only the most recent. But what they make of the acquired form is invariably Japanese.

This has been going on since the 6th century, with the result that few of the accumulated images that spell "typical Japan" to a foreigner were invented by the Japanese themselves. Zen Buddhism was an import, and pagodas and brush calligraphy and bonsai trees (originally known to the Chinese as *penjing*). Likewise the microchip and the small, inexpensive car. Tempura, the name of one of the Japanese dishes most popular among foreigners, is a mangled Latin word that refers to the Portuguese Catholic propensity to eat fish on Fridays as penance, as distinct from the Japanese practice of eating it every day for pleasure. Even Kobe beef, on which every Japanese dotes when he can afford to, is a Western import. The first cow butchered in Japan died for the table of an American consul in Shimoda in the 1850s, and a monument has since been raised to it by the butchers' association of Japan. Before that, cattle were not eaten. The idea of eating beef was as strange as that of eating roast tractor parts.

A culture of adaptation saves time and energy. It promotes service and flexibility. It enables its members to concentrate on refinements, rather than lose themselves in Promethean false starts. They can treat the whole world as their unpaid research lab. Japan made cars and trucks before World War II, but the prototype that launched the world triumphs of the Japanese auto industry was the American Jeep, a tough, open, naive and compact vehicle that became a common sight in the country after 1945. It was a Volkswagen without a *Volk*. It showed, as no Buick staff car could, that four wheels and a motor could mean democracy and access. It became a prime motif in the envy of the vanquished for the victors.

So did the imagery of the visitors' PX: the white gleam of refrigerators and stove enamel, the iconography of GE and Hoover, so utterly different from the traditional dimness of the Japanese house and the mandatory drabness of wartime, with its austerity colors and nocturnal blackout. On a popular level, the war had caused an immense disenchantment with traditional Japanese architecture, wood and paper: "weak" materials, which burned. Concrete and steel were the substances of a victor culture, and the huge termitary cities of Japan were rebuilt with them.

The Japanese thus embraced the Bauhaus. Before the war, that small school in Germany had seemed distant and unimportant to most Japanese architects; now it, and the homogeneous systems of environmental design it stood for, became an obsession with younger architects at Tokyo University. In 1954 Walter Gropius came to Japan to give a series of lectures, only to discover that an extraordinary loop of adaptation had taken place. What Gropius liked in Japan was its traditional architecture, epitomized by the Katsura Imperial Villa in Kyoto. The kind of modernism he stood for was heavily indebted to Japanese sources, transmitted to Germany nearly 50 years before by Frank Lloyd Wright, not just in details or quotations of carpentry, but in fundamentals, such as the open plan and the design of furniture. Thus a German brought Japan back to the Japanese, and the prestige of traditional vernacular among Japanese architects zoomed, a fact that might give pause to those who think that the mission of the Bauhaus was to standardize buildings everywhere. In effect, it enabled the Japanese to adapt to themselves. Perhaps this could have happened only to people accustomed, time out of mind, to living with two or three cultures simultaneously, like a farmer addressing one Shinto god after another until he gets the result he needs.

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Goal #3: To understand the "political economy" of contemporary Japan by exposure to its political system, its economic system, and the interrelationship of the two.

Goal #4: To examine the methods by which Japanese industry has developed its organizational structure, has become a major producer of quality consumer products with little natural resource base, and has become a major industrial competitor in the world today.

Goal #5: To understand who makes the economic decisions in and for Japan.

In any society there is a very vital interplay between the system of government and the economic and productive aspects of that society. Although politics and economics can be studied as separate disciplines, the two very much affect each other when examined in their practical application to a society.

The following viewpoints explain and illustrate the political and economic system of Japan and the interrelationship between the two:

A. Government in Japan, Japan Air Lines, 1971.

B. The Constitution of Japan.

C. Government Organization - Legislature, Executive, Judical, Facts and Figures of Japan, 1982, Facts About Japan, 1981, Japan Air Lines, 1971.

D. Map of Japan - Prefectures, Office of the Mayor, Osaka, Japan.

E. Local Governments of Japan, Office of the Mayor, Osaka, Japan.

F. Kinds and Number of Local Governments, Office of the Mayor, Osaka, Japan.

G. Industry / Labor, Japan Information Center.

H. "New Japan: A Very Different Nation Now, The Daily Yomiuri, October 20, 1983.

I. Economy - charts and graphs showing Gross National Product, Economic Growth, Trade Trends, Principal Export Commodities and Export Markets, Principal Import Commodities and Import Sources, Overseas Business Expansion, Foreign Affiliates, from various government ministries.

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Goals #3, #4, #5 continued-

J. "Competition at Home Leads to Success Abroad", Time, March 30, 1981.

K. "A Daily 'Samurai Duel'", Time, March 30, 1981.

L. Address by Mr. Nukazawa, Keidanren, October 5, 1983.

M. Japanese Business Managers and the Government, Time, March 30, 1981.

N. Address by Mr. Kujirai, MITI, October 5, 1983.

O. "MITI Panel Urges Economic Boost, The Japan Times, October 8, 1983, and MITI Eyeing Assistance To Oil Industry", Mainichi Daily News, October 12, 1983.

P. Address by Mr. Kurisaka, Keizai Koho Center, October 5, 1983.

Q. Address by Mr. Hazumi, Sumitomo Bank, October 7, 1983.

R. The Labor Movement, Japan Air Lines.

S. Address by Mr. Naruse, Nikkeiren, October 7, 1983.

T. The Japanes Firm, Japan Air Lines.

U. Address by Mr. Imanishi, Nissho Iwai Corporation, October 7, 1983.

V."Sogo Shosha - Key Participants in the International Trading Arena," Nissho Iwai Corporation.

W."Japan's General Trading Companies," Herman Kahn, Nissho Iwai Corporation.

X. Address by Mr. Kishida, Kawasaki Steel Corporation, October 17, 1983.

Y. Address by Mr. Tsuiki; Toyota Motor Corporation, October 19, 1983.

Z. "The Spirit and the Ideas that Created Toyota"; Toyota Motor Corporation Labor-Management Relations, Working Conditions, Statistical Highlights of 1982, Overseas Sales, Overseas Operation, Overseas Production and Assembly.

AA. Address by Mr. Teranishi, Asics Corporation, October 12, 1983.

BB. Asics.

CC. Address by Mr. Hayashibara, Mr. Kamiya, Mr. Raees, Hayashibara Company Limited, October 18, 1983.

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Goals #3, #4, #5 continued-

DD. Hayashibara Group - Goals and Objectives and the 12 sections of the Hayashibara Group.

EE. "Japan's New Nonconformists", The New York Times, March 8, 1983.

FF. Address by Mr. Suga, Kanemata Corporation, October 12, 1983.

GG. Sharp Corporation - Overview, Business Creed, Business Philosophy.

HH. "Competition Japanese-Style", Jon Woronoff, Mainichi Daily News, October 14, 1983

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GOVERNMENT IN JAPAN

Japan has a democratic system of government. The Emperor, Hirohito, is regarded as a symbol of the country and the unity of the people. He has no powers relating to government, but presides at official ceremonies, and receives foreign ambassadors.

As in the United States, sovereignty in Japan rests with the people, who elect representatives to the National Diet, the country's supreme law-making body. The Diet, like America's Congress, has an upper and a lower house. Instead of a President, Japan has a Prime Minister who, together with his cabinet, is selected from members of the Diet. The Diet has the power to remove the Prime Minister from office when it desires, and the Prime Minister can also decide to dissolve the Diet and call for new public elections. All Japanese men and women aged 20 and over have the right to vote. Recent election results show that a larger percentage of Japanese (about 75 percent) than Americans (about 50 percent) regularly vote.

Japan's Constitution protects the basic human and civil rights of the individual, including freedom of speech, press, assembly and religion. As in America, Japanese courts are independent of the legislative and executive branches of government.

The defeat of Japan in World War II introduced a new element into the Japanese government: occupation and reform by the Allied Forces, mainly the United States, under Supreme Commander, General MacArthur. And, although the forms of the old Japanese government were kept for the most part, many important changes were made. The Emperor's divinity was denied and his symbolic nature affirmed; the armed forces were demobilized; military industry was converted and the great financial cliques, or *zaibatsu*, broken. A purge of military and nationalistic leaders from public life was carried out and war criminals tried. All laws which denied the rights of citizens were either expunged or changed. Land reform reduced tenancy and equalized holdings, and the Japanese Constitution was rewritten.

Thus, by autocratic means Japan was to be made more democratic, peaceful and progressive. By 1949, however, the occupation relaxed its efforts at reform in the face of mounting concern over the menace of Russia. To meet that menace the United States sought to make a strong Japan which would be a bulwark against Communism. Therefore the present government of Japan is neither entirely traditional, nor is it entirely American, but an interesting blending of both. The test of American success came in 1952 when the U.S. formally ended the occupation. It is surprising how many of the American reforms the Japanese adopted after Allied prescription disappeared.

The fundamental law of Japan is the Constitution. In many ways the "MacArthur" Constitution is a radical change from the older "Meiji" Constitution of 1889. It has resulted in establishing for the Japanese people respect and recognition of human and individual rights, unprecedented in their history.

It renounces war as a right or as a means of solving international problems. It carefully spells out the rights of citizens which may not be abridged or limited by legislation. It declares that the Emperor is but a symbol of state "deriving his position from the will of the people with whom resides sovereign power." It makes the executive (Cabinet) responsible to the legislature (Diet). Many thoughtful Japanese claim that the American occupation forced a foreign constitution upon Japan and that it must be revised, now that affairs are back in Japanese hands. These men argue that the articles concerning the Emperor and war especially need to be changed: the one to bring the Constitution into conformity with Japan's unique tradition; the other to bring it into conformity with the realities of the day. Curiously, those most anxious to change the Constitution are those whose policies have most favored the U.S., especially the Liberal-Democrats.

Other thoughtful Japanese believe that despite the foreign influence, the Constitution should not be tampered with, if democracy is to be protected from resurgent autocracy and militarism. Curiously, too, this opposition to Constitutional change has come from elements most opposed to the U.S., especially the Socialists. Thus, it does not seem likely that the Constitution will be amended in the near future, not only because of the formal difficulties of amendment, but also because of deep currents of opposition to rearmament present among large numbers of Japanese.

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THE CONSTITUTION OF JAPAN

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We, the Japanese people, acting through our duly elected representatives in the National Diet, determined that we shall secure for ourselves and our posterity the fruits of peaceful cooperation with all nations and the blessings of liberty throughout this land, and resolved that never again shall we be visited with the horrors of war through the action of government, do proclaim that sovereign power resides with the people and do firmly establish this Constitution. Government is a sacred trust of the people, the authority for which is derived from the people, the powers of which are exercised by the representatives of the people, and the benefits of which are enjoyed by the people. This is a universal principle of mankind upon which this Constitution is founded. We reject and revoke all constitutions, laws, ordinances and rescripts in conflict herewith.

We, the Japanese people, desire peace for all time and are deeply conscious of the high ideals controlling human relationship, and we have determined to preserve our security and existence, trusting in the justice and faith of the peace-loving peoples of the world. We desire to occupy an honored place in an international society striving for the preservation of peace, and the banishment of tyranny and slavery, oppression and intolerance for all time from the earth. We recognize that all peoples of the world have the right to live in peace, free from fear and want.

We believe that no nation is responsible to itself alone, but that laws of political morality are universal; and that obedience to such laws is incumbent upon all nations who would sustain their own sovereignty and justify their sovereign relationship with other nations.

We, the Japanese people, pledge our national honor to accomplish these high ideals and purposes with all our resources.

Following are the major divisions of the Japanese Constitution:

Chapter 1. The Emperor

Chapter 2. Renunciation of War

Chapter 3. Rights and Duties of the People

Chapter 4. The Diet

Chapter 5. The Cabinet

Chapter 6. Judiciary

Chapter 7. Finance

Chapter 8. Local Self-Government

Chapter 9. Amendments

Chapter 10. Supreme Law

Chapter 11. Supplementary Provisions

Date of Enforcement: May 3, 1947

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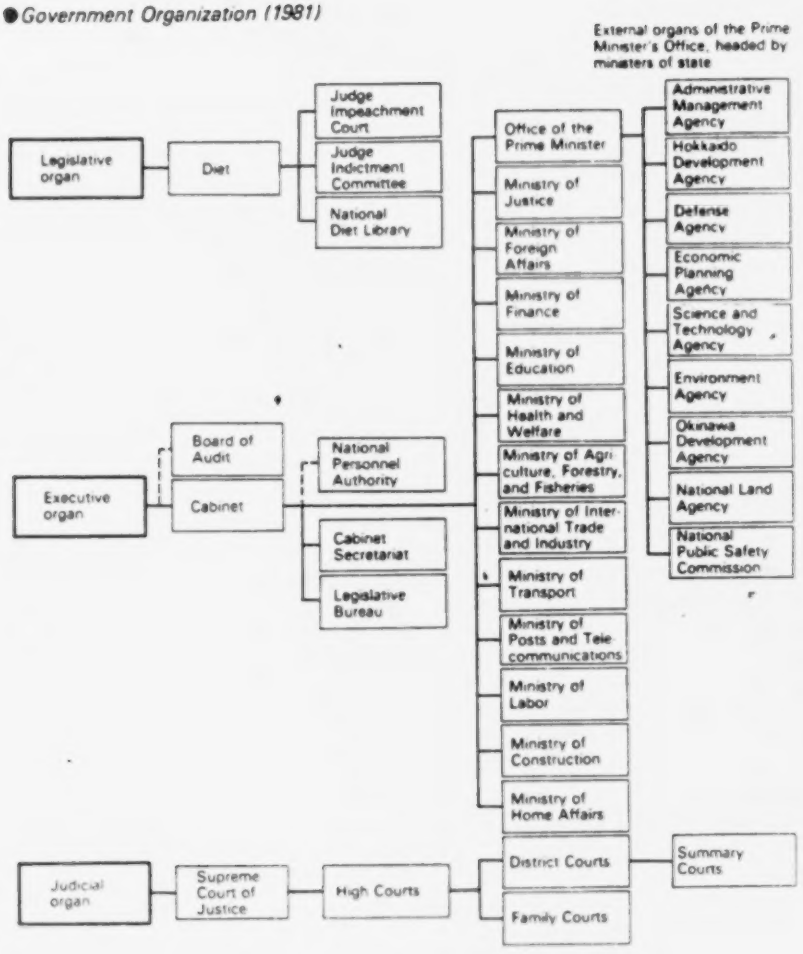
● *Government Organization (1981)*



- The Diet, according to the Constitution, is "the sole law-making organ of the State" and consists "of elected members, representatives of all the people." The Diet is divided into two houses. The House of Representatives is made up of members elected for four years, unless the house is dissolved. Members of the House of Councillors are elected for six years, half being elected every three years. The upper house cannot be dissolved. The new Constitution sought to make the Diet all-powerful, but in fact it is not. Especially since the development of the two party system since 1955, the majority party holds power and administers it through its majority in the Diet and its control of the Cabinet. But there are checks within the conservative party and strong opposition from the Socialists, the press, public opinion and organized labor and students which force the conservatives in power to act with thoughtful circumspection.

- Procedures for voting are established by the National Government, as Japan is a unitary rather than federal nation. Any one over 20 years of age may vote. To become a candidate one files his intention with the local election board and places a deposit. Party affiliation is necessary for financial support and for election, and nominees are selected by the national headquarters of the parties. Independent candidates are rare and usually unsuccessful.

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- **Legislature**

The Diet is the highest organ of state power and is the sole legislative organ of the state. The Japanese parliament is bicameral, consisting of the House of Representatives and the House of Councillors. The House of Representatives takes precedence over the House of Councillors.

Business cannot be transacted in either house unless at least one-third of the total membership is present. All matters are decided by a simple majority of those present, or, in some special cases, by a two-thirds majority.

- *House of Representatives*

Membership: 511

Members are elected from prefectural electorates. The term of office is four years but may be terminated before it expires if the Cabinet dissolves the House.

- *House of Councillors*

Membership: 252

Members are elected from both national and prefectural constituencies.

The term of office is six years and election of half the members takes place every three years. The House of Councillors is never dissolved.

- **Administration**

The Cabinet, in which the nation's supreme executive power is vested, exercises control and supervision over various administrative branches for national administration.

Due to the parliamentary cabinet system that Japan follows, the Cabinet rests on the confidence of the Diet, to which it is collectively responsible.

The prime minister, normally a member of the political party that has a majority in the House of Representatives, is designated from among Diet members by a Diet resolution and is appointed by the emperor.

- *Principal Functions of the Cabinet*

1. To conduct general affairs of state.
2. To manage foreign affairs and conclude treaties. (For treaties, the Cabinet must obtain prior or subsequent approval of the Diet.)
3. To employ civil service personnel and administer the civil service.
4. To prepare the budget and present it to the Diet.
5. To issue government ordinances to execute the provisions of the Constitution and of the law.
6. To decide on amnesties.
7. To give advice and approval to the emperor on his acts in matters of state.
8. To nominate the chief justice of the Supreme Court for appointment by the emperor and to appoint all other judges.
9. To decide on convocation of extraordinary Diet sessions and emergency sessions of the House of Councillors.
10. To decide on dissolution of the House of Representatives.

- The present judicial division of the 1946 Constitution is a single national system comprising a Supreme Court consisting of fifteen members, ten of whom must have had extensive legal experience; eight appellate courts, forty-nine district courts; and a number of other courts with specialized functions such as family courts, traffic courts and small claims courts. There is no system of dual jurisdictions such as exists in the United States. Judges are appointed, not elected, and virtually all judges are professionals who were appointed to the bench as assistant judges upon their graduation from the Legal Research and Training Institute. Judges customarily sit in panels of three, including one senior and two assistant judges.

- It should be pointed out that law, the judicial system and litigation today do not and have never played as important a role in Japan in the resolution of disputes as they do in some Western countries. Traditionally, disputes have been resolved by conciliation, by compromise, by reference to a social superior for arbitration rather than by litigation.

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(Sources of information: Facts and Figures of Japan, Foreign Press Center, Tokyo, 1982; Facts About Japan, Public Information and Cultural Affairs Bureau, Ministry of Foreign Affairs, Japan, 1981; Government in Japan, Japan Air Lines, 1971.)

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I. Local Governments of Japan

Before entering the subject of local revenues of Japan, brief mention should be made on the classification and roles of local governments in Japan. The local governments in Japan are classified into two levels: The lower level comprises municipalities: Cities, towns and villages; the higher level consists of prefectural governments. Each of these local governments has a publicly elected head and a local council whose members are also publicly elected. It is an autonomous body which compiles its own budget and provides various services to the residents within its jurisdiction. The very basic governments, the municipalities, are in charge of administration most closely connected with civic life: Family registration, resident registration, construction and management of elementary and junior high schools, hospitals and social welfare institutions, development of waterworks, sewer systems, roads and parks, public housing, waste disposal, fire fighting, social welfare works including relief of the poor, bus transportation and so forth. In Japan, these municipalities number 3,255. On the other hand, prefectural governments, 47 in all, are larger than municipalities, comprising cities, towns and villages within their areas.

(Source: Revenue of the City of Osaka, Its Structure and Problems, Yasushi Oshima, Mayor of Osaka City, Japan.)

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(1) Kinds and Number of Local Governments

o Kinds of Local Governments

1. Prefectures .... As local governments encompassing municipalities, prefectural governments are in charge of

   (1) Works that have bearing on a wide area,

   (2) Works which require integration,

   (3) Liaison and adjustment works relating to municipalities, and

   (4) Works which are deemed inappropriate for municipalities to carry out

2. Municipalities(cities, towns and villages).... As basic local governments, municipalities are in charge of administration closely connected with civic life: compulsory education; construction and maintenance of roads, waterworks, sewerage, housing and parks; waste disposal; fire fighting; social welfare and public transportation.

o Relationship between Prefectures and Municipalities

There is no relationship of subordination or supervision between prefectures and municipalities. They share functions, that is to say, prefectures as a body for integrated administration of a large region and municipalities as basic local public bodies, and do not compete with each other. It is reasonable to say, however, that prefectures are in a position to adjust problems that arise among municipalities and give advices to them.

o Number of Local Governments (As of April 1, 1982)

- Local Governments 3,303
  - Prefectures 47
    - To 1 (Tokyo Metropolitan Government)
    - Do 1 (Hokkai-Do)
    - Fu 2 (Osaka-Fu, Kyoto-Fu)
    - Ken 43
  - Municipalities 3,255
    - Cities 651
    - Towns 1,993
    - villages 611

(Source: Revenue of the City of Osaka: Its Structure and Problems, Office of the Mayor, Osaka.)

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JAPAN INFORMATION CENTER
Consulate General of Japan
153 East 53rd Street
New York, New York 10022

6. INDUSTRY / LABOR

"I know that Japan makes many cars, cameras, televisions and other products. I want to know more about Japanese industry."

Japan ranks second in the world in total production of goods and services (GNP), behind only the United States. Japan, in fact, ranks first in many important industrial categories, including shipbuilding, automobiles, cameras, watches and televisions. It ranks second or third in cement, aluminum, rubber, chemicals, plastics and many other industries. Overall, Japan has a highly modern economy which in terms of technology and sophistication compares with the American economy.

Most people in Japan work in manufacturing industries, like those mentioned above, or in the rapidly growing service industries, such as banking, transportation, wholesale and retail trade, and insurance. Very few people today work in so-called primary industries such as farming, fishing and forestry. This pattern of employment is similar to that found in the United States and other advanced countries.

In general, Japanese workers are highly trained, dedicated, and loyal to their companies. The larger companies (which employ about one quarter of the workforce) usually hire employees with the expectation that they will remain with the company for their entire career. Except in extreme cases, workers are very rarely laid off or fired. In a sense, these companies regard their workers as "members of the family," and they offer their workers a wide range of benefits, including low-cost company housing, medical care, recreational facilities, and even nurseries and kindergartens.

Industrial wages, while once low, have risen rapidly over the last two decades in Japan. The average wage is now slightly lower than in the United States, but is about twice as high as that in France or Italy. Most workers in Japan are paid monthly salaries, and at least one or two bonuses a year. These bonuses are based on the company's performance, and are usually equal to several months' salary.

Japanese generally work about the same number of hours per week as Americans (40.2 hours compared to 37.3 hours per week). Many companies work half days on Saturdays, but the five-day work week (with Saturday and Sunday off) is becoming common.

Japanese workers are organized into labor unions, as in the United States, but these unions are typically company unions rather than industry-wide unions consisting of all workers of the same occupation. Instead of a union like the United Automobile Workers, there is a Toyota union, Datsun union, and a Honda union. Every spring, unions negotiate

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with management over wage increases and other issues. In general, however, the relationship between workers and managers is more cooperative in Japan than in the United States, and although labor disputes do occur, strikes are relatively rare.

Unlike the United States, Japan has very few natural resources of its own, and must import large quantities of raw materials, including iron ore, copper, bauxite, cotton and wool, food grains and petroleum. To pay for these essential imports, Japan must export manufactured goods overseas. As a result, Japan is one of the world's largest trading nations, accounting for about 10 percent of all trade (imports and exports) in the world. Needless to say, Japan is very dependent on a peaceful and stable world-trading system.

Japan exports its goods to virtually all nations of the world, but especially to developed countries like the United States. In recent years, in particular, Japanese products have become very well known overseas for their high quality and innovative design. Japanese industry has long emphasized quality control and the use of the latest and most efficient production processes. Factories in Japan are generally highly automated. Some use computer-controlled robots to perform basic manufacturing tasks.

Japan became a modern industrial nation in about a century—faster than any other country in history. To achieve this rapid economic growth, Japan borrowed and adapted much technology from the United States and other advanced countries. Japan continues to import advanced technology today, but it is also exporting its own advanced technologies to other countries. A number of Japanese companies, in fact, are now providing technological assistance to American firms.

The United States is Japan's most important trading customer, and Japan is America's second-largest trade partner after Canada. Total U.S.-Japan trade now amounts to more than $45 billion a year. About 25 percent of all Japanese exports go to the United States, while the United States provides 20 percent of Japan's imports. The United States sells Japan large amounts of agricultural goods, industrial materials such as coal and lumber, a wide range of consumer goods such as sports equipment and toys, and large industrial machinery, computers and aircraft.

Many American companies, including IBM, Xerox and Kodak, have overseas branches in Japan. Recently a growing number of Japanese firms (over 200 as of 1980) have opened branches in the United States. Almost all Japanese television sets sold in the United States today are actually made here, using American labor.

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(TEXT) THE DAILY YOMIURI 10/20/83

New Japan: A Very Different Nation Now

The picture the world has of Japan limps behind reality, fooled by the Japanese gift for absorbing new things and adapting them smoothly to old forms. The Japan President Reagan visits next month is a very different nation from the one that Westerns think they know.

One starting sign of novelty is that a powerful former prime minister, Kakuei Tanaka, has last week been convicted of receiving bribes and sentenced to prison. There are deeper movements too. Of the three main themes of post-1945 Japan, one, a reticent foreign policy, has already begun to change. Another, government by bureaucratic consensus, is about to be forced to change. And the third, Japan's hyper-efficient export machine, is producing desirable effects that most Westerners have not yet grasped.

Member Of The West

Japan's prime minister, Yasuhiro Nakasone, says "a quiet revolution" is taking place in Japan's relations with other countries. Credit for this goes to Nakasone himself, who slipped into office less than a year ago as a result of the usual inter-factional deal within his Liberal-Democratic Party. To everybody's astonishment, he began almost immediately to call on Japan to take a bigger hand in the West's foreign policy.

This call was mistaken at first as a simple summons to arms, both by the Japanese (who therefore sent Nakasone down in the opinion polls), and by foreigners. The military element is important: Japan's defense spending, at 1.6 percent of GNP (as NATO counts it), needs to go up; but it is not as important as the political element. It suited Japan for some time after 1945 to retire from the world and look to itself. It no longer does. Japan's economic weight and the close identification of its political interests with the West's fit it for more than a cameo part on the international stage.

Nakasone is the first Japanese prime minister to say this clearly. But he is not dragging Japan kicking and screaming into the world. The Japanese responded well to his assertive performance at the Williamsburg summit in May, and the Cabinet has just endorsed the view that Japan is "a member of the West." Japan is diligently tending its relations with other Asian states, especially in Southeast Asia. There are still jitters over defense, but Japan now seems prepared, even eager, to act and be thought of as something more than an economic animal.

Domestic Politics

Japan's steps towards politics in the world outside are being shadowed by a similar movement inside. Japan has been a democracy since 1945, but until now it has not had much of what Westerners think of as politics. There was no real dispute about the aim of government policy (economic growth), and little about how to achieve it. Bureaucrats made policy by negotiating a consensus among themselves. The almost indistinguishable blur of post-1945 prime ministerial faces is accounted for by the fact that politics in Japan has consisted of little more than baroque deals among the factions of the only party that counts, the Liberal-Democrats. The country was run by non-politicians.

Factional dealing is still the heart of Japanese politics. That is why Tanaka's conviction was the year's biggest political news in Japan. Nakasone, who leads an unimportant faction of the ruling party, owes his job to Tanaka, who leads an important one. The guilty verdict is the opening shot in a factional battle that probably will not, but possibly could, cost Nakasone the premiership. It was once of only passing interest that a Japanese prime minister had a chance of falling because of a factional fight, and little chance of doing so because of his policies. Not now. The Liberal-Democratic Party has to shape up because tough political choices now have to be made.

Japan cannot expect another 20 years of economic growth like that of the past 30. The government's archaic systems for financing its spending requires an overhaul. The country's rapidly ageing population poses a huge new problem. Instead of a fast-growing and smoothly running economy, which provided the basis for Japan's government by bureaucrats, Japan will have a slow-growing and cranky one. Politicians will have to make the choices about tax and distribution policy whether they like it or not.

Wrong Ideas

It is not politics that leaps to most Western minds when Japan is mentioned. It is exports. Westerners still see Japan as "supercompetitive," its exports destroying whole chunks of their industry. This year, with Japan set to run a surplus of around $20 billion on the current account of its balance of payments, Western protectionists are in full cry. They are wrong on every count, and on three in particular.

First, Japan's export growth this year is part of a cycle that owes more to the failings of currency markets than to inherent Japanese success. Partly because Japan's financial system is less flexible than most in the West, the yen is more volatile. Last year it was heavily undervalued, so Japanese goods could undercut Western competition. Over the past 12 months, the yen has risen by 18 percent in trade-weighted terms, which will help to make Japanese goods less competitive in 1984 and 1985. The currency markets will do what import-controllers want, with none of the hard-to-reverse arbitrariness that is protection's real blight.

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34 "NEW JAPAN..." (page 2)

Even when the yen is rising, too many Westerners still make a second mistake: they see their bilateral deficits with Japan as proof that the Japanese are "unfair competitors. In a world where countries trade widely and currencies are convertible, bilateral balances are irrelevant. Any country which has to import all its raw materials has to export manufactures. Japan is bound to run a trade surplus with other manufacturing countries, because what it needs to buy comes from the oilfields of the Gulf and the plantations of Malaysia. If Japan were towed down the Pacific and clamped on to Australia, the Japanalian economy would soon be producing and selling a mixture of commodities and manufactures, and would probably run a trade deficit with Britain and West Germany. Stuck with its mountains, Japan's prosperity depends on its having a surplus in manufacturing trade.

Investing Abroad

The third Western muddle over Japan's current-account surplus is the most serious. It forgets that this current surplus is mirrored in a deficit on the capital account, which means that more Japanese savings are being invested abroad than foreigners are investing in Japan. Excellent. The second biggest capitalist economy ought to be a capital exporter. Since countries first learned how to help each other grow, the rich have been lending to the poor. Nineteenth-century Britain ran a huge current surplus every year, had nil inflation (indeed, a 10 percent fall in retail prices over the period 1860-1913), and thus invested at cheap interest rates in backward places like California and Canada.

Japan should prove the best lender that the world has had since then. It has had nil inflation in the year to August, its savings are high (unlike America's) and its interest rates are low. Its companies will build and run factories in India and Indiana; its insurance companies will buy more World Bank bonds; its government should expand its aid program. None of this will be possible unless Japan has a current-account surplus. Western politicians who want to cut that surplus by trade barriers do double damage, hurting their own consumers and then restricting the flow of Japanese capital and know-how to their own countries.

The Japan taking shape for the rest of this century is one that sensible Westerners should be delighted with. It is a Japan that shows every promise of taking its part in a Free-World foreign policy, and of enriching the West with its trade and technology. It would be not only ungenerous, but an act of folly, for Westerners not to welcome this new Japan.

The Economist

10/20/83

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D. Economy

D-1. Gross National Product

Japan's gross national product (nominal) in 1980 stood at $1.04 trillion, the highest in the free world after the $2.63 trillion GNP of the United States. In 1965 Japan's GNP was still not as great as that of Britain or West Germany and corresponded to only about 10% of the U.S. GNP. With economic growth, however, Japan's GNP has now become roughly 40% that of the United States.

Since the end of World War II, Japan's annual economic growth rate has always been positive and usually been high, with the exception of 1974, when, despite nominal GNP growth of 19.1%, inflation led to a 1.2% drop in real GNP. In 1980 real GNP grew 4.2%.

• *GNP of Seven Major Nations (Real)*

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Japan (¥ trillion, 1975 prices)	117.59	123.10	134.15	145.98	144.17	147.86	158.50	163.75	172.13	181.74	189.43
U.S. ($ trillion, 1972 prices)	1.09	1.12	1.19	1.26	1.25	1.23	1.30	1.37	1.44	1.48	1.46
Britain (£ billion, 1975 prices)	95.54	97.98	100.21	108.49	105.79	105.18	109.58	109.61	113.90	115.15	113.08
West Germany (DM billion, 1970 prices)	679.0	701.7	727.3	763.0	765.7	752.3	792.0	814.5	843.5	881.6	897.5
France (F billion, 1970 prices)	782.6	824.9	873.5	920.4	950.2	952.0	1,001.2	1,031.7	1,070.0	1,107.0	1,119.8
Italy (Lira trillion, 1970 prices)	62.98	63.92	65.96	70.60	73.53	70.85	75.01	76.44	78.49	82.31	85.57
Canada (Canadian $ billion, 1971 prices)	88.89	94.45	100.25	107.81	111.68	113.01	119.25	121.82	126.00	129.44	129.54

Source: Akiyuki Nishiki, ed., *Comparative International Statistics*, Bank of Japan, 1981.

D-2. Economic Growth

In the decade following 1955, Japan's economy enjoyed prolonged prosperity, with growth averaging more than 10% annually. Spectacular progress continued until Japan's GNP surpassed that of West Germany in 1968 to rank second in the free world.

The 1973 oil crisis pushed Japan's economy off its high-growth track and, along with the ensuing synchronized global recession, ushered in an era of low economic growth in Japan, characterized initially by a recession and the nation's first negative growth.

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E-2. Trade Trends

Japan ranks with the United States, West Germany, France, and Britain in overseas trade activity. Both exports and imports have been increasing annually, but the rate of increase has slowed in recent years because of the business recession.

After World War II, Japan was under strict foreign exchange controls, and the government regulated foreign trade. Trade liberalization has been promoted since around 1959, however, to keep pace with worldwide trends. Around 1968, when Japan's gross national product became the second largest among the world's noncommunist countries, pressure from countries plagued by payments deficits forced Japan to opt for either revaluation of the yen or liberalization of trade and capital transactions. By 1975 or 1976, Japan's trade liberalization was nearly completed. Restrictions remain in such areas as agriculture, forestry, fishing, mining, and the petroleum and leather product industries. As of April 1, 1982, 27 items, including beef, dairy products, and leather, were still under residual import restrictions.

• *Total Exports and Imports*

(unit: $ million)

Year	Exports	Imports	Balance
1955	2,011	2,471	−461
1960	4,055	4,491	−437
1965	8,452	8,169	283
1970	19,318	18,881	437
1971	24,019	19,712	4,307
1972	28,591	23,471	5,120
1973	36,930	38,314	−1,384
1974	55,536	62,110	−6,574
1975	55,753	57,863	−2,110
1976	67,225	64,799	2,427
1977	80,495	70,809	9,686
1978	97,543	79,343	18,200
1979	103,032	110,672	−7,640
1980	129,807	140,528	−10,721

Source: *Gaikoku boeki gaikyo* (The Summary Report—Trade of Japan), Ministry of Finance.

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E-3. Principal Export Commodities and Export Markets

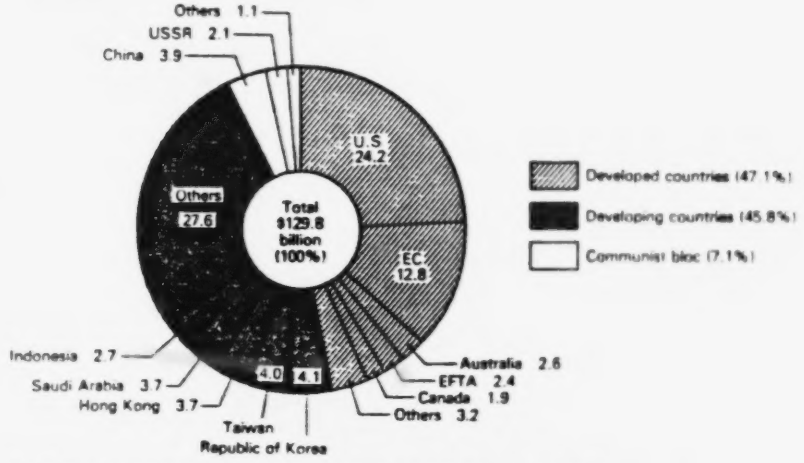
In 1980 machine products such as ships, automobiles, and radios were the major export items, accounting for more than 60% of the total. Synthetic fiber, automobile, and television exports have sharply increased over the past several years, while cotton fabric, ammonium sulfate (fertilizer), and ceramic exports have declined.

• *Composition of Japan's Exports* (%)

	Foods	Textiles	Chemical products	Nonmetallic mineral products	Metal products	Machinery and equipment	Others
1971	2.8	11.5	6.2	1.6	19.0	49.4	9.4
1972	2.3	10.2	6.2	1.7	17.0	53.8	8.7
1973	2.3	8.9	5.8	1.5	18.5	55.1	7.9
1974	1.5	7.3	7.3	1.2	24.7	50.2	7.7
1975	1.4	6.7	7.0	1.3	22.5	53.8	7.4
1976	1.3	6.3	5.6	1.4	19.6	58.9	6.9
1977	1.1	5.8	5.3	1.4	17.5	61.8	7.0
1978	1.1	5.0	5.2	1.4	16.4	64.1	6.8
1979	1.2	4.8	5.9	1.5	17.8	61.3	7.5
1980	1.2	4.9	5.2	1.4	16.4	62.8	8.1

Source: *Zaisei kin'yu tokei geppo* (Financial Statistics Monthly), Ministry of Finance, June 1981.
Note: Customs clearance basis.

• *Japan's Main Export Markets (1980)*



Source: *Zaisei kin'yu tokei geppo* (Financial Statistics Monthly), Ministry of Finance, June 1981.
Note: Customs clearance basis.

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E-4. Principal Import Commodities and Import Sources

Japan's dependence on imports has been steadily increasing for such commodities as coal, lumber, and wheat. Nearly all of Japan's crude oil, iron ore, bauxite, and raw cotton requirements have been met by imports since well before a decade ago.

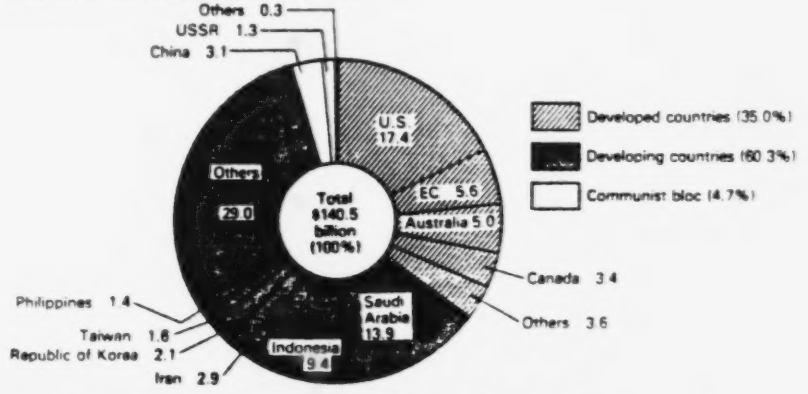
In 1980, the United States was Japan's largest source of imports, accounting for 17.6% of the total. Raw cotton, wheat, coal, maize, soybeans, and lumber are among the principal U.S. commodities Japan imports. Japan's next most important import sources are Saudi Arabia and other Middle Eastern countries, which provide the bulk of Japanese crude-oil imports. Japan also imports heavily from Indonesia, Australia, and EC countries.

• *Composition of Japan's Imports* (%)

	Foods	Textile raw materials	Metallic raw materials	Other raw materials	Fossil fuels	Chemical products	Machinery and equipment	Others
1971	14.8	4.9	12.8	14.8	24.1	5.1	12.2	11.3
1972	15.4	5.7	10.6	14.3	24.3	4.9	11.0	13.7
1973	15.7	5.7	10.5	15.8	21.7	4.9	9.1	16.6
1974	13.1	3.0	8.6	11.6	40.1	4.3	7.6	11.8
1975	15.2	2.6	7.6	9.9	44.3	3.8	7.4	9.3
1976	14.5	2.8	7.1	10.5	43.7	4.1	7.1	10.3
1977	14.3	2.8	6.7	10.7	44.0	4.2	6.9	10.3
1978	14.4	2.7	6.1	10.6	39.5	4.7	8.2	13.8
1979	13.0	2.2	6.2	11.7	40.9	4.7	7.5	13.8
1980	10.4	1.7	6.0	9.2	49.8	4.4	7.0	11.4

Source: *Zaisei kin'yu tokei geppo* (Financial Statistics Monthly), Ministry of Finance.
Note: Customs clearance basis.

• *Japan's Main Import Sources (1980)*



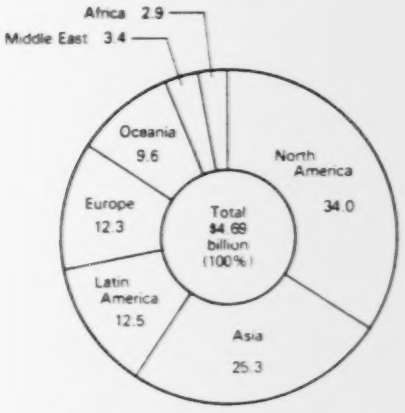
Source: *Zaisei kin'yu tokei geppo* (Financial Statistics Monthly), Ministry of Finance, June 1981.
Note: Customs clearance basis.

E-5. Overseas Business Expansion

Japanese businesses expand overseas for a variety of reasons, including the desire to open up new markets for their products, the availability of labor, assured access to natural resources, and fewer environmental restrictions on production activities. A sharp increase in overseas expansion began in fiscal 1972 (April 1972-March 1973), after former U.S. President Nixon's "defend-the-dollar" policy triggered a massive inflow of foreign currency amounting to some $10 billion and a resulting revaluation of the yen.

Private overseas investments approved by the government in fiscal 1980 totaled $4.69 billion. In the 30 years from fiscal 1951 to fiscal 1980, Japan's direct overseas investments totaled $36.50 billion.

• *Amount of Direct Investment by Region (FY 1980)*



Source: *Zaisei kin'yu tokei geppo* (Financial Statistics Monthly), Ministry of Finance, December 1981.

E-6. Foreign Affiliates

American companies are most numerous among the foreign affiliates operating in Japan. Of the 200 largest U.S. corporations, more than 100 have entered Japan.

Foreign companies enter Japan mainly for the following reasons: a comparatively small financial investment is sufficient, the existence of a labor force of superior quality makes it easier to launch a new enterprise, and there are fast-growing markets attractive to foreign corporations. For example, foreign corporations entering manufacturing industries have tended to concentrate in the rapidly growing area of advanced technology. Also behind the entry of foreign corporations into Japan have been their intentions to use their Japanese affiliates as bases for expansion into Southeast Asia.

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Competition at home leads to success abroad

Some two miles north of the glittering lights of Tokyo's Ginza district is a lesser-known commercial enclave that, in its way, is every bit as dazzling. Called Akihabara, it is a booming bazaar that spills over 20 blocks and is probably the world's most fiercely competitive market for electrical goods. In hundreds of sprawling stores and cubbyhole shops festooned with brightly colored banners proclaiming bargains, customers can buy almost any type of vacuum cleaner or video-cassette recorder, refrigerator or radio, humidifier or home computer. Familiar brands such as Sony and Sharp are surrounded by scores of less familiar names: Nakamichi, Denon and Oki. At one store can be found 205 varieties of stereo headphones, 100 different color television sets and 75 kinds of record turntables. While some stores are relatively sedate, others flash lights, blast out rock music and station salesmen on the sidewalk to pitch for patrons like French Quarter strip-club touts in New Orleans.

The bedlam at Akihabara goes a long way toward explaining why Japan has conquered consumer electronics markets around the world. For Japanese companies, competition begins at home. To survive and prosper, they must turn out products with exceptionally low prices, outstanding quality and innovative features. If Japanese firms can outpace their local rivals, foreign competitors often prove to be pushovers. Says a top Japanese electronics executive: "Our target is not some other country; our target is ourselves."

The electronics business, bursting with 580 companies, is just one of many Japanese industries, both old and new, that are hotly competitive. More than 7,000 firms manufacture textiles, and 114 make machine tools. The fledgling robotmaking business already has 200 entrants. Even in heavy industries dominated by giant corporations, competition is comparatively strong. Japan has nine auto manufacturers, while the U.S. has only four domestic ones.

Japan's internal rivalries have gone largely unnoticed in the U.S. and Europe, where attention has focused on the aid and guidance Japanese industries receive from the government. Western commentators talk of Japan Inc., implying that business and government have banded together to form a monolithic powerhouse bent on overrunning world markets. Critics such as Senator Donald Riegle Jr. of Michigan and W.J. Sanders III, chairman of Advanced Micro Devices, a California semiconductor company, complain that Japan's Ministry of International Trade and Industry (MITI) encourages the formation of cartels and also targets promising industries for special research grants. Some economists, businessmen and politicians are calling for a U.S. industrial policy to counteract Japan's government planning.

More and more American experts on Japan, however, are challenging the notion that industrial policy is the main force behind the country's economic power. Government assistance has helped some Japanese industries, such as computer chips and machine tools, but has had little impact on many others. Economics Professor Hugh Patrick of Yale points out that the auto and consumer electronics industries, two of Japan's greatest triumphs, have received no special breaks from the government. Says Philip Trezise, a senior fellow at the Brookings Institution in Washington: "The Japanese have had success in foreign trade because of their competitiveness at home."

MITI has sometimes put its money on the wrong horses. During the early 1950s, when a young company that was later to become known as Sony was getting excited about a new invention from the U.S. called the transistor, MITI chose to help two other firms engaged in making soon-to-be-obsolete vacuum tubes. MITI also had no say in Sony's decisions to market Betamax video-cassette recorders and Walkman portable stereos, two of the company's fastest-selling products. Japan is the leading manufacturer of industrial robots, but MITI played no role in financing their development.

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Breakneck competition makes information a precious commodity. Japanese companies comb mountains of scientific literature for hints of technological advances. Engineers are as familiar with the opposition's product line as with their own. Whenever a firm puts out a new model, rivals immediately disassemble it to analyze its parts.

This thirst for information has served Japanese companies well in their international forays. Before leaping into a foreign market, they painstakingly reconnoiter the competition, consumer tastes and cultural pitfalls. They like to know everything about the people and companies they do business with. Says San Francisco Banker Gardner Jacobs of his dealings with the Japanese: "They kept my pedigree in a little black book. They knew how many kids I had and where I lived. I always maintained they knew what color shorts I wore."

The Japanese learn to compete early in life. Starting with kindergarten, they run a brutal educational gauntlet that gradually separates winners from losers. Young Japanese who join large corporations learn to set aside that kind of competitiveness in favor of cooperation and consensus. Members of the team share information and skills for the greater good of the company. As a result, the workplace becomes like a harmonious home.

The competitive spirit does not disappear, however. It is merely redirected toward competing corporations. Most Japanese spend their entire careers with a single company and develop an intense loyalty that can be even stronger than family ties. A Japanese diplomat in New York recalls what happened when his brother joined Mitsubishi Corp., the giant trading company: "Mitsubishi's competitors became his enemies, even more so than the Soviet Union." The desire to beat the opposition for the glory of his company is a powerful force that motivates the Japanese worker.

For many years, MITI has tried to keep competition within bounds. The agency generally believes that an industry functions best if it is dominated by a few big firms that can reap the benefits of large-scale production. Nonetheless, Japanese businessmen have frequently ignored MITI's philosophy and advice. In the early 1960s, MITI tried to persuade the then ten Japanese automakers to merge into two companies: Toyota and Nissan. Only one complied, joining Nissan. Later in the decade, MITI wanted to keep Honda, the motorcycle firm, out of the auto business. But Soichiro Honda, the company's legendary founder, who was known as Old Man Thunder, defied the government, brought out his minicars and built the firm into Japan's third largest auto manufacturer behind Toyota and Nissan. In industries that are growing, MITI has been unable to curb competition. "It's a free-for-all," says James Abegglen, vice president of the Boston Consulting Group, "like a barroom brawl with no mercy shown."

MITI has had more success with dampening competition in declining industries. In many cases, the government has been willing to bend its antitrust laws to permit cooperation among companies. When the shipbuilding business started to sag in the 1970s, MITI allowed the firms to form a cartel that would share orders. In that way, the decline was evenly distributed. The strategy gave the companies time to diversify, while gradually reducing their production. MITI is now encouraging the formation of similar cartels in the paper, petrochemical and aluminum industries.

The rivalry between the U.S. and Japan is sure to grow increasingly intense. The Japanese have set their sights on America's premier growth industry: computers. Already, MITI has poured $375 million in research money into the computer industry.

In the end, however, the amount of money that the Japanese government spends is not likely to be the decisive factor in who wins the computer race. In fact, Thomas Hout, a Japan expert at the Boston Consulting Group, suggests that MITI's aid might actually hurt Japanese companies if it dulls some of their individual initiative. The strength of the Japanese computer industry is its competitiveness. Some 30 manufacturers, for example, are battling it out in the market for word-processing equipment.

American companies are understandably eager to study Japan's management style, and U.S. politicians are looking at the Japanese industrial policy. But the main lesson of Japan's success is actually very simple and already well known. It is merely that competition in a tough marketplace usually produces spectacular results.

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The close relationship between worker and company is intimately connected with the country's system of lifetime employment, which covers 35% of the country's labor force, nearly all of whom are employees of Japan's largest and most powerful companies. In Japan a worker typically joins a firm directly out of trade school or university and expects to stay there until he retires. Says Akio Morita, chairman of Sony: "In Japan, once we hire people we cannot lay them off."

Retirement at such lifetime firms normally comes at the early age of 55, but does not automatically swell the ranks of the nation's unemployed. Not only do corporations give their retiring workers lump-sum retirement payments, but upwards of 75% of the workers are rehired immediately, at lower salaries, by smaller companies that in many cases have been supplying parts or subcontracting services to the larger firms all along. For those who do not find jobs, and for the unemployed elderly, the government and many private employers have launched extensive retraining programs to give the jobless workers new skills.

Since those workers covered by lifetime employment know that they have a guaranteed job, and that their future is tied up with that firm, they are willing to be more flexible at work than employees in many Western countries. New machinery is not a threat to a worker's job but a useful tool that may help improve company profits. As Fujio Mitarai, head of Canon U.S.A., told TIME's Robert Grieves: "In order to automate production, we had to divert workers into altogether new fields. We moved them from cameras to copiers to calculators, but we kept everyone employed in the process."

For many Japanese employees, and especially those of the nation's larger companies, life at the plant stresses the virtues of self-discipline and diligence. They seem to embody the Datsun slogan: "We are driven." At many firms, work begins with a chorus or two of the company song so that employees can get in the properly productive frame of mind. At Nissan Motor, every shift begins with a warm-up period of calisthenics on the shop floor.

At other Japanese firms, such as Japan Airlines and Mitsui Trust Bank, new employees eagerly submit to unusual initiations. One Tokyo retailing firm dispatched its group of newcomers for a mid-winter swim on the northern island of Hokkaido to tone up their self-discipline. Matsushita workers, by contrast, are sent to a Zen Buddhist temple for three-day retreats. In most Japanese companies the new workers, their parents and other relatives attend a ceremony at which the president welcomes the newcomers to the firm.

The working environment of Japanese plants is not fancy. Though they are kept immaculately clean, the buildings are spare and functional, and the machinery is always the most up-to-date. Occasionally workers will try to add some local color. At Nissan's body assembly plant in Zama, near Yokohama, workers have pasted pictures of movie stars like Sayuri Yoshinaga and Kaori Momoi on the new robots that make the cars.

Japanese companies also provide extensive social services for their employees. New workers are often housed in company-built dormitories. The employees remain in this housing for as long as five years, vacating in many cases to get married and move into their own homes, which the company helps finance.

Much of the employee life outside work is spent in company social clubs, where courses are available in flower arranging and the tea ceremony. Weddings are also conducted in the social clubs; and the company helps pay the costs, including as much as $500 to rent the traditional bridal gown.

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A Daily "Samurai Duel"

Japan is set apart from other industrial societies by its remarkable homogeneity. The boss and his employee share much more than a common heritage; they have many of the same points of view. TIME *Correspondent S. Chang spent a day each with President Toshihiko Yamashita, 61, of the giant Matsushita Electric Industrial Co., and Yoshinobu Saito, 29, one of the firm's 1,600 sales engineers. His report:*

Matsushita President Yamashita earns $333,300 a year, and Saito makes $12,900. But except for age and experience they seem almost interchangeable. The differences between them stem mostly from the less formal, Westernized style of Japan's younger generation.

Yamashita, the soft-spoken chief executive, wears conservative business attire and lives in the rolling hills outside Osaka in a graceful seven-room house with immaculately pruned shrubbery. Trim and athletic, he favors a traditional Japanese diet. His breakfast that day consisted of grilled fish, rice and bean-paste soup.

Saito, the young, eager sales engineer, wears more modish togs and lives three miles away in a $62,500 four-room house that also has a well-cared-for garden. Saito bought the house two years ago with his own savings, plus loans from his company and bank. Despite monthly house payments of $152 and an additional $1,810 deducted from his yearly bonus to pay off the mortgage, he still saves 15% of his salary. While Saito likes Japanese food, he started his day with a Western-style breakfast of coffee, bread and two hard-boiled eggs.

Both men's fathers were working-class, and both ended their formal educations with technical high school, where they learned their first phrases in English. After graduation, each went to work for Matsushita—Yamashita in 1938, and Saito in 1970. Neither has ever worked for any other company.

The chauffeur called for Yamashita promptly at 7:50 a.m. in an indigo Mercedes-Benz limousine. His wife Kikuko, 57, accompanied him outside his house and bowed farewell. Acknowledging this ritual with a nod, Yamashita climbed into the back seat. He greeted his driver by saying, "It's going to be another hectic day."

Saito's departure for work at 6:40 a.m. was not quite a photocopy. Etsuko also bowed at the front door, but then Saito hugged her and chased her playfully around his tiny gray Mitsubishi Minica 360. Once in the driver's seat, he called out to his spouse "Another busy day!"

When they arrived at work, the two men followed entirely different routines. From 8:20 a.m. to 5:30 p.m., Yamashita attended more than a dozen conferences, most of them to hand out citations to the company's most productive employees and to discuss the future direction of the company. Like most Japanese executives, Yamashita puts a high priority on communications between top management and the rest of the organization. Said the president: "You simply could not or would not make any important decision without first achieving a consensus within your corporation."

So much of Yamashita's day was taken up by discussions with employees that only 32 minutes were left for reading and desk work. The president usually has a business lunch. On this day, it was with the visiting Ambassador from Madagascar and his wife.

Saito, by contrast, spent much of his day in solitude. Before work began, he sat for 15 minutes in the plant cafeteria drinking coffee and poring over newspapers. Then at 8 a.m. he stood at attention next to his desk and, along with his fellow workers, sang the company song, which begins: "A bright heart overflowing with life linked together, Matsushita Electric." This is an honored tradition in many corporations throughout Japan. Saito's job is to help TV distributors understand the technical details of Matsushita products. He first answered a stack of telex messages, most of them from the U.S., where the firm's products are sold under the brand names Panasonic, Technics and Quasar. Nearly all replies were cabled in English, even when addressed to a fellow Japanese. Explained Saito: "We would not want to give our American colleagues the impression that we were exchanging secret messages."

Executive Toshihiko Yamashita

Sales Engineer Yoshinobu Saito

Except for a 45-minute lunch in the company cafeteria, Saito sat at his desk most of the time. But he did not feel isolated. Said he: "Never do I feel like a cog in a huge impersonal machine." Occasionally he went off to consult with the experts on the assembly line. Most of this afternoon was spent writing and revising an English-language manual for a new TV-set model. Then at 4:45 p.m., he and his colleagues stood and again sang the Matsushita song. That was not, however, the end of Saito's day. He returned to the cafeteria for a light supper of grilled fish and then walked upstairs to a 2½-hour English-conversation class. Saito returned home at 9 p.m., when he and Etsuko shared a snack, accompanied by a daily tot of two whisky-and-waters.

Yamashita finished his day at the plant at 5:30 p.m. He did not take time to chant the company song. Instead, he hurried off to entertain a few clients at a restaurant. Such affairs are an integral part of Japanese business life, and Yamashita must often attend them five nights a week. He got home at 10 p.m.

Both men were up early the next morning because, as one old hand at Matsushita says, "Every day is a samurai duel."

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Notes from Address from Mr. Kazuo Nukazawa, Director, Financial Affairs Department, KEIDANREN (Japan Federation of Economic Organizations) - October 5, 1983

KEIDANREN: trade association federation - 110 member organization plus 800 big companies - interest of this organization is "big business" - most important single organization in Japan - represents the "private sector".

1. Current major concerns:

   -Current high taxes.

   -International finance.

   -"Small government" philosophy (too much government involvement).

   -1984 United States Presidential election (affects Japanese fiscal policy).

   -Indebtedness of Third World ("solvency and liquidness" issues and problems).

2. Aid to Third World:

   -Japanese government feels that the private sector should be involved.

   -Japanese government does extend monies to the IMF (International Monetary Fund) without conditions.

   -Japanese government also supplies funds to IDA (International Development Association - World Bank).

3. KEIDANREN Position:

   -Government should reduce expenditures.

   -No more government borrowing.

   -Corporate income tax is the highest in the world (52%) - should be reduced.

   -Government should not cut individual income taxes unless the government cuts programs or increases other taxes.

4. Japanese system does not favor borrowing like the United States system:

   -Borrowing by individuals is not tax deductible.

   -Savings - there is no tax on interest earned on savings.

   -There is no tax on interest earned from investments in government bonds.

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Mr. Nukazawa - KEIDANREN

5. Major institutional differences between the USA and Japan:

-American managers are concerned with "short term" returns.

-Japanese managers are concerned with "long term" returns.

6. Japanese government expenditures on defense and welfare:

-Current defense expenditures are about 5%.

-Will see an increase in the years ahead - rate not to increase above 10%.

-But considering the size of the Japanese economy - will be highest in Asia by the year 2000.

-Today - 2nd highest next to Communist China.

-Japan is not willing to increase the rate as much as the U.S. government wants.

-Japanese welfare expenditures are about 4 times as much as the USA.

-Common world problem is "pension schemes" - politicians only worry about their term of office but once a pension plan is begun it lasts for years and can run out of money.

7. China - Mainland:

-No longer any relationship to the U.S.S.R.

-Japan is open to Chinese textiles as is the U.S.A.

-Japanese aid to China in the areas of development but not in military areas.

-China will export "cheap goods" (light industry) to Japan - toys, textiles, etc.

-As long as China needs food (primary source is the USA) there will be good China-USA relations.

8. Secret to Japanese management:

-Relations between labor and management.

-Based on job stability = workers respond = loyalty

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Japanese Business Managers and the Government

One of the most complex aspects of Japanese business is the relationship between managers and the government. Tokyo ministries that set national economic priorities can exert substantial pressure on companies, but their influence is much less than is believed outside Japan. Says Takeshi Sakurada, chairman of the Toho Rayon manufacturing company and honorary president of the Japan Federation of Employers: "The amount of government interference or the role of government in private business is very small as compared with the U.S. or the European Community." Adds one Western economist in Tokyo: "There is no Japan Inc.—if there ever was one."

Japanese businessmen do not have to bear the heavy burden of government regulation that American industrialists do. For example, antitrust rules barely exist. This permitted the Japanese auto companies to get together with government officials and agree on a common design for antipollution equipment. That would have been against the law in the U.S., where each auto company worked independently to develop its own system. Japanese carmakers today are at least two years ahead of the U.S. in emission-control technology. In a similar way, government and business usually work out mutually acceptable agreements for solving the considerable problems of health and environment.

The hand of the government's tax man in business is approximately the same as in the U.S. The corporate tax rate on business profits ranges from 22% to 40%, which is similar to the 17% to 46% rate that applies to American business. Both countries have a range of exemptions and deductions that are virtually impossible to compare.

The most important factor in the business-government relationship is that, as in all other areas of Japanese society, agreement is reached only after long discussions. If talk fails, the government can turn to "administrative guidance," a procedure rather akin to American-style jawboning. Even then the private companies can simply refuse to accept the government's recommendations. In the late 1950s, for example, the Japanese government suggested that the nation's automakers join forces to produce a low-cost "people's car" modeled after the Volkswagen in order to crack the U.S. market. The automakers refused and launched their own separate products.

Despite Japan's enviable economic progress in the past quarter-century, the nation is hardly without its social and economic problems. Many of its shortcomings are side effects of the same qualities that have helped it to achieve so much. The sense of national unity and consensus has resulted in a society that tends to reject anyone who is different. One example: the *burakumin*—descendants of pre-17th century social outcasts, are still not considered full members of society. Some 600,000 Koreans, many of whose families have lived in Japan for generations, are likewise not integrated into the mainstream of Japanese life.

Power in Japan is concentrated within the upper echelons of business, banking and the pro-business Liberal Democratic party, which has ruled continuously since 1955. Relations are much closer than would be accepted in the U.S. or Western Europe. Members of the nation's power elite, whatever their profession, often have known each other closely for a half-century. When executives retire, they frequently become corporate advisers, honorary chairmen and industrial counselors. Likewise, when senior civil servants leave government they may become top advisers in the very corporations they once regulated; the custom is called *amakudari* or, literally, "descent from heaven."

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Notes from Address from Mr. Koichi Kujirai, Counsellor, Ministry of International Trade and Industry (MITI) - October 5, 1983

1. MITI has played an important role over the last 15-20 years in the Japanese economic recovery after World War II.

2. The basic principle is to encourage private competition - not to interfer - but to assist needed areas of the economy.

3. Fiscal concerns - to examine potential power of developing companies - give help and assistance to businesses and industries that need help - this help comes in the form of research and grants - also helps declining industries in terms of advice and adjustment to new economic realities.

4. One strong misconception is that MITI controls private industry - incorrect.

5. Goal of MITI is to help establish good relations for private industries - there is an industrial council, which is a mix of business and industry to aid in this goal.

6. Source of funding: Ministry of Finance - approximately 2% of total government budget - MITI discusses to whom the financial help goes - no foreign export subsidies.

7. United States is the #1 market for Japanese exports (about 25%) and Europe is the #2 export market - if this changed it would be disastrious for the Japanese economy - China as a replacement is questionable?

8. If research assistance comes from MITI to a private company then the "patent" becomes the governments and the company has exclusive rights to develop the product.

9. Example of MITI help to a declining industry - MITI bought extra textile equipment from "hurting" textile industries and then destroyed the equipment.

10. People who oppose MITI feel that it protects only big business but in fact it helps the smaller businesses also.

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THE JAPAN TIMES Saturday, October 8, 1983

MITI Panel Urges Economic Boost

An advisory panel to the Ministry of International Trade and Industry (MITI) on Thursday proposed a set of measures designed to boost domestic demand to expand the Japanese economy and relieve trade friction with foreign countries.

The panel submitted the nine-point recommendation in an interim report to Keiichi Konaga, director-general of MITI's Industry Bureau.

The proposal called for an early cut in the official discount rate, income tax reduction and additional public works spending.

The report estimated that Japan s trade will swell to between $32 billion and $38 billion in the current fiscal year ending next march 31 if the Japanese economy recovers, led by rising exports.

Buoying domestic demand will therefore be the most important task for the mangement of the economy, it stressed.

The report also emphasized the need for the government to carry out a tax cut for plant and equipment investment and to issue national bonds to finance public works projects.

Public works projects have an immediate and sure effect of boosting domestic demand, it said, calling for additional spending in the sector for the second half of fiscal 1983.

The report criticized the government's fiscal reconstruction policy, which emphasizes cutting government spending, by stressing the necessity of higher economic growth.

If the Japanese economy grows 3 percent in nominal terms, tax revenues will increase 10 percent automatically, it estimated. "An economic expansion will pave the way for fiscal reconstruction," it said.

The report said that issuing more government bonds will not immdiately lead to a rise in interest rates given current easy money situation.

Delay Expected

Japan will adopt a set of measures aimed at reducing its snowballing trade surplus somewhat later than the originally expected October 15, a senior government official said on Thursday.

The official said some more time is necessary "to adjust differences among government departments on some measures," including an income tax and additional public works spending.

Uno To Answer EC's Demands

International Trade and Industry Minister Sosuke Uno said on Friday that he will shortly answer letters he and Prime Minister Yasuhiro Nakasone have received from Gaston Thorn, president of the European Communities (EC) Commission and Wilhelm Haferkamp, its vice-president.

Uno said that he will answer the letters before a meeting of the EC ministerial council opens in Brussels on Monday.

In the letters received by Nakasone and Uno recently, the EC Commission asked them to "take dramatic measures" for stepped-up imports from EC countries.

In the replies, Uno said that he will tell the EC officials that Japan is making effort to open its market wider to foreign imports. He added that he will also give Japan's views on the current state of Japan-EC trade.

MAINICHI DAILY NEWS, OCTOBER 12, 1983

MITI Eyeing Assistance To Oil Industry

The Ministry of International Trade and Industry (MITI) is moving to seek legislative remedy for the beleaguered oil industry, officials said Tuesday.

MITI is considering deregulating Japan's long-standing policy of requiring oil companies to refine imported crude oil at home and also forcing reductions in the number of oil refiners and gas stations.

MITI will soon ask the Petroleum Council, its advisory organ, to study the advisability of legislative changes aimed at promoting industrial regrouping and easing increasingly fierce retail competition.

The advisory panel's subcommittee will have until the end of this year to come up with a broad outline of government measures to promote the realignment, presumably including soft bank loans.

The council will be required to submit a final report on a long-range oil policy by May 1984, the officials said.

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Notes from Address from Mr. Yoshiro Kurisaka, Director, Keizai Koho Center,
Japan Institute for Social and Economic Affairs - October 5, 1983

1. "Collectivism" very important in the Japanese social and economic setting.

2. Japan is very dependent on the importation of raw materials from other countries.

3. Japan must be aware of, and keep its eyes on the so-called "Gang of Four": Taiwan, South Korea, Hong Kong and Singapore - these countries are "chasing" Japan in the economic areas - they are following closely right behind Japan in terms of economic developments and for that reason are competitors - Japan must continually look for new areas for economic development.

   For example: auto imports to the USA - Japan is loosing in S.E. Asia to Taiwan with South Korea close behind - could be a future threat to the world-wide Japanese auto industry and especially to imports to the USA.

4. American Ambassador Mansfield has referred to the 21st century at the "Century of Asia" - American investors are looking for investment opportunities in the Japanese economy.

5. Japan, coupled with other Asian countries, is a fast-growing market area. Potential for American involvement.

6. Substantial Japanese investment in the USA through auto industry: Nissan, Honda, Toyota, Nippon - will grow (there are 11 car makers including trucks in Japan).

7. One reason for Japanese economic growth is that intelligent young Japanese men went into business and industry after World War II - before WW II the choice was business or the military and after the defeat of Japan the military was <u>not</u> very popular.

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Notes from an Address from Mr. Takayuki Hazumi, General Manager, Sumitomo Bank - October 7, 1983.

1. Japan has gone through the following economic stages since World War II:

   1945-mid 1950's: Restoration of the economy - people involved in the "classical industries" (textiles, agriculture, coal, fertilizers)

   1955-1971: Period of great economic expansion (petro-chemicals, synthetic fibers, TV, automobiles)

   1971-present: Period of economic adjustment (automobiles, electronics, high-technology)

   1973 and 1979 energy crisis developments causing some imbalances, some instability, fluctuation of the Yen

2. Because of the economic stages and developments there has been a shift in the labor force - society moving to "service type" areas.

3. Looking to the future the Japanese economic community has to examine the prospects of a contradiction: emphasize the free market system or move toward a well-planned "national industrial policy".

4. The Bank of Japan (Central Bank) regulates the money supply in Japan as the Federal Reserve System regulates the money supply in the USA.

5. Trade friction between the USA and Japan does exist but each needs the other - Japan needs the US defense help and support - US needs Japan's support in pursuing world politics - Japan is the USA's 2nd largest market - gets 15% of US exports - the "glory of Europe" is fading away - Europe is almost becoming a burden.

6. Why products from the USA are not sold rapidly in Japan - products are the wrong size, therefore not appealing - the American system just presents its products but does not listen to those who will buy the products in terms of suggested revisions - American attitude is that the "buyer" in the foreign country should adjust and adapt rather than adapting the product for the foreign nation/culture - Japanese do not disagree with foreign products from American, rather with the American methods.

7. 20% of disposable income in Japan is in savings.

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THE LABOR MOVEMENT

Today most of these individual unions are loosely affiliated with one of the four national federations, which are now referred to as "upper groups" or "friendship groups." Cooperation between an individual company union and the federation with which it is aligned is purely voluntary and usually limited to very general goals.

The four national labor-union federations in Japan today include Sohyo, which has a membership of approximately 4.26 million; Domei, with about 1.96 million members; Churitsuroren (the Federation of Neutral Labor Unions) with about 1.34 million members; and Shinsanbetsu, which has about 70,000 members. Altogether, there are some 56,000 unions with approximately 12 million members. Industry-wise, 4 million of these are in manufacturing, slightly over 2 million are in communication and transportation; 1.23 million are in service industries, and government employees account for a slightly over one million.

The violence that marked the development of labor unions in postwar Japan continued until about 1955. As the economy continued to expand, there was a gradual rapprochement between unions and company management. Employers accepted unions, and began working to gain their cooperation. At the same time, union leaders on the company level realized that they could prosper only if their companies prospered, so "mutual trust and cooperation" became the central theme of labor-management relations.

Following this development, some 85 percent of the individual company unions formed their own permanent "Labor Management Council" made up of members representing the workers and management. The council meets regularly and discusses any issue pertinent to the union or managment. Several such meetings are held before the two sides enter formal bargaining sessions.

The leaders of the two most important labor federations are still active politically. *Sohyo* generally supports the Socialist Party, while Domei supports the Democratic Socialists. Both federations are constantly pushing for higher wages and compete with each other in their efforts, which take the form of annual spring "struggles" for pay increases and larger summer and year-end bonuses. A new assessment of the positions of unions in Japan reveals a growing feeling of common identity and cooperativeness on a grassroots level. In the past, most of the impetus for union agitation for higher wages, etc., came from the federation leaders. But now, union members in the small, low-paying industrial enterprises are showing a surprising willingness to participate in the annual spring offensive.

The approximately 64 percent of the country's industrial workers who are not unionized are mostly in the smaller enterprises where the pay scale and working conditions are below the standards maintained by the large corporations. This wage gap, which once ran as high as to around 60 percent, was narrowed down to 35 percent in 1968 as an acute shortage of labor was felt by the nation's industries as a whole. The gap, however, still remains to be one of the main points brought up each year by the union federations.

Small firms are still able to draw labor from a large pool of unpaid family members, particularly from tiny outmoded retail shops and agricultural areas. Until this labor supply becomes scarce, unions will probably not make any significant headway in these enterprises.

The development of the private company union in Japan was a direct result of the traditional life-time employment and family-relationship system of Japanese companies. The distinction between union members and company management is not clear-cut. These company unions do not exist outside the context of the company. If an employee leaves a company for any reason he has no more connection with the union or its federation. Despite the stated views of *Sohyo* leaders that the goals of labor and management are inherently opposed, the Japanese worker in the manufacturing fields especially is acutely aware that under the present company system the two are in fact inseparable, and that his loyalty to the company must take precedence over his loyalty to his union. As a result, the most active of Japan's unions (other than miners and transportation workers) are white collar workers such as Government employees and teachers.

Unions have not yet been whole-heartedly accepted by the rank-and-file in Japan. Older management tends to feel that unions would be unnecessary if employers would follow "the Japanese idea of mutual concession and help mixed with totalitarian humanism." Most of the labor force agrees with this principle. The attitude that the aims of labor and management are naturally opposed is an imported ideology and does not readily fit the traditional Japanese social pattern.

However, a noteworthy trend is *Sohyo's* increasing efforts to help workers in the small and medium-sized enterprises win higher wages; as well as a growing interest in national social security problems.

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Before the turn of the century there were not enough industrial workers in Japan to form a strong base for the development of an effective trade union movement. Working conditions and the treatment of industrial employees in Japan during this time left much to be desired. As a result of the long hours and meager pay-scale there were a number of spontaneous strikes and demonstrations, particularly in the coal mines and textile mills, as early as the 1870's. These protests were unorganized and ineffective, but they did arouse the sympathy and interest of several political organizations which tried unsuccessfully to help them.

The first genuine unions came into being in Japan during the Sino-Japanese War of 1895-96 when the development of heavy industries expanded rapidly. As a result of numerous labor disputes during this period, a Labor Union Promotion Society was established in 1897 to bring pressure on the Government to pass factory legislation. In the same year the Workers' Volunteer Society and the Association for the Study of Socialism were formed to help promote the idea of trade unionism among workers.

Under the leadership of the Labor Union Promotion Society, workers in the steel, railways, ship-building and printing industries organized unions in the late 1890's. But their leaders were primarily intellectuals and theologians (schooled in the U.S.) whose interest was more educational than revolutionary. In addition to being handicapped by the lack of true union zeal, these new labor organizations were weakened by leadership squabbles, opposition from employers and a depression which set in a few years after the war with China. Then in 1900 the Government passed a Public Police Act which resulted in the unions being suppressed altogether. For the next decade the ideal of unionism was kept alive by a small Socialist party which was under constant police surveillance and finally broken up completely in 1910 when it was suspected of plotting to assassinate the Emperor.

Two years later Government opposition to labor unionization had relaxed to the point where a new organization was allowed to form. Called the Friendly Love Society, the new group at first concerned itself with promoting employee-employer cooperation and carrying on educational programs among the workers. A series of riots in 1918 brought on by severe inflation and food shortages resulted in the Government further liberalizing its attitude toward unions. The Friendly Love Society began to engage in organizing activities openly. In 1919 the Society changed its name to the Great Japan Labor Union Federation—later shortened to *Sodomei*.

By 1931 there were some 818 unions with over 370,000 members (of which one-third belonged to the Seaman's Union), representing about eight percent of the total industrial labor force. Five years later there were close to one thousand unions with more than 420,000 members, but the overall percentage had fallen to around five percent as a result of accelerated employment in the munitions industries.

In terms of effectiveness, the above figures are deceptive. The trade union movement was split by ideological disputes among its leadership. The struggle finally narrowed down to the Socialists and the Communists, and *Sodomei* began breaking up into opposing groups. By 1927 it was split into three factions: the Japanese Council of Labor Unions on the left; the League of Japanese Labor Unions in the center; and what was left of *Sodomei* on the right. Two years later *Sodomei* was again rent by division when another faction withdrew and merged with the centrist organization to form the National League of Labor Unions.

The political situation in the early 1930's further split the trade union movement. Each faction became more extreme. The Government began to bring pressure against the leftist Japanese Council of Labor Unions, and in 1936 ordered the group dissolved. The rightists, represented by *Sodomei*, threw their support behind the militaristic Government and in 1937 renounced the right to strike. Some right-wing workers patriotically dissolved their own unions as a gesture of their support of the Government. In July 1940 the Government outlawed all unions.

For the most part, the prewar trade union movement in Japan had failed. The giant *Zaibatsu*, with their closed family-type operations, were impervious to unionization. The remainder of the industrial labor force was spread thinly among thousands of tiny shops which for the most part were just as resistant to true unionization as the large manufacturing and trading combines. Most of the labor leaders were leftist intellectuals who commanded very little loyalty among rank and file members.

Following the end of World War II in 1945, the U.S. Forces occupying Japan encouraged the formation of unions. Shortly afterward three laws (the Labor Union Law, the Labor Standards Law and the Labor Mediation Law) were passed by the Japanese Government, providing a powerful legal basis for the formation and function of unions. In 1946 there were over 17,000 unions claiming a membership of approximately seven million.

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Simultaneously, labor leaders who had been in charge of the prewar *Sodomei* group began attempts to establish a national federation along the lines of the CIO and AFL. They opened the organization to any type of union while de-emphasizing industrial unionism as being unfeasible at the time. This plan ran into immediate trouble. Communists and various left-wing groups began pushing for a politically active, centralized movement emphasizing industrial unionism. In the early stages, the opposition groups made some effort to work together but within a year the movement had divided into the revived *Sodomei* which was supported by the right-leaning Social Democrat Party, and *Sanbetsu* or National Congress of Industrial Unions, which was Communist dominated. A new center group also appeared but made little headway.

Rivalry between the two large labor federations became more intense than in prewar years. *Sodomei* soon claimed 850,000 members made up of 24 prefectural union federations and four industrial unions, most of which were in shipping, textile and light industrial enterprises. *Sanbetsu* consisted of 21 different federations and large unions, with over a million and a half members. Government workers, miners and workers in the heavy machinery, transportation and electrical power industries made up the bulk of *Sanbetsu's* membership.

Neither organization made any progress after the first few months. Over half of the organized workers refused to affiliate with either federation, preferring to remain in small neutral or independent groups. The two large federations occasionally cooperated, especially in an effort to win higher wages, but for the most part they were engaged in a continuous struggle against each other. From 1946 through 1949 there were numerous destructive movements, alliances and leagues among the opposing forces. Finally, at the request of the Occupation authorities, the Trade Union and Labor Mediation laws were revised in an effort to bring some order into the situation.

Sanbetsu disappeared and was replaced in late 1949 by *Shinsanbetsu*, with less than a fifth of its former membership. During the latter part of this year and 1950 the Occupation forces in concert with the Japanese Government carried out a sweeping move to rid the Government, business and the unions of all Communist elements. Thousands of known Communists in business and in Government agencies were fired, including 2,546 union officials who were mostly in unions affiliated with the original *Sanbetsu* federation. With the Communists out of office, right-wing groups began a concentrated effort to gain complete control of the labor movement.

In July 1950, after more than 18 months of preparation, *Sodomei*, *Shinsanbetsu* and several unaffiliated national unions joined to inaugurate a new federation—*Sohyo*, or the General Council of Trade Unions of Japan. A short while later *Shinsanbetsu* withdrew from *Sohyo*, taking along about half of its original membership. The largest groups within the new federation were the teachers' unions, the national railway workers' unions and the postal workers' unions. At first *Sohyo* advocated democracy and opposition to Communism, and appeared determined to stay out of politics. But by the signing of the Peace Treaty with Japan in 1952 the organization had split into the Left and the Right. Before long, the leftist faction gained complete control of the federation, and it became primarily a political organ.

In the years following the Peace Treaty, *Sohyo* made several attempts to bring about the downfall of the conservative Government. When its first attempt was unsuccessful, the federation called a series of national strikes on an unprecedented scale. This forced the Government to intervene and also resulted in new conflicts and divisions within *Sohyo*. Many unions withdrew from the federation. In 1954 a new rival federation, Zenro (Japan Trade Union Congress), was established. Zenro itself, however, has become affiliated with Sodomei and has established a new organization, Domei (Japan Confederation of Labor), in 1964.

Unlike unions in Western countries, most unions in Japan did not develop on an industry or craft basis. Instead, they are organized on a company level. That is, employees of individual companies form their own "private" union, which includes both shop and office workers. This type of union, the so-called company or enterprise union, accounts for over 80 percent of the unions in Japan.

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Notes from an Address from Mr. Takeo Naruse, Director, Research Division, NIKKEIREN, (Japan Federation of Employers' Association) - October 7, 1983

1. Two main organizations involved in the Japanese economic picture-different emphasis:

   KEIDANREN (Japan Federation of Economic Organizations) represents the large businesses and industries (monetary policy, financial aspects, trade, production).

   NIKKEIREN (Japan Federation of Employers' Association) represents the employees (labor and social matters).

2. 40 million people employed in Japan - about 11 million are involved in trade unions.

3. Characteristics of Japanese industrial relations:

   -"life-time" employment.

   -Senority system of promotion - hierarchy.

   -Company-based trade unions (not national trade unions as in the USA).

4. Characteristics within the Japanese culture that are important as they relate to the economic sector:

   -Group-oriented people (some say this is so because there has been no revolution in Japanese history).

   -Buddhism = "work is the meaning of life".

   -Almost a class-less society (recent polls show that most Japanese think of themselves as "upper-middle class" people).

5. Labor/Management relations: all bargaining is at the company level - management and labor leaders negotiate in April - no long-term labor contracts - one-year contracts - this time of the years referred to by the Trade Unions as the "Spring Wage Offensive".

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In recent years businessmen around the world have begun to show professional interest in the role the distinctive character of Japanese companies has played in the almost miraculous expansion of Japan's economy. This interest has been strengthened by the fact that, to outsiders at least, some of the characteristics of Japanese firms appear to be incompatible with the efficient operation of business.

The first Japanese company in the modern sense of the word was established in 1870. The years of industrial development that followed saw the proliferation of small family-run shop factories on one hand, and the rapid growth of large industrial combines (the *Zaibatsu)* on the other. This resulted in a "split-level" industrial structure. The *Zaibatsu* combines were broken up during the postwar Occupation of Japan, but new ones centering around the old trading companies, petro-chemical industries and giant electronics manufacturers have since replaced them. At the same time, many of the smaller firms have been absorbed by larger ones, and others have outgrown the small firm category. But 90 percent of all the industrial firms in Japan still employ less than 20 people, and the "split-level" structure remains one of the major features of industrial Japan.

A majority (some 79 percent) of these tiny enterprises are not incorporated. There are only 7,745 firms in Japan that employ more than 300 people, and therefore rank as large enterprises.

The form and nature of the typical Japanese firm, as well as the essence of Japanese management philosophy, is a natural reflection of the traditional customs and attitudes of the Japanese. Probably the over-riding principles behind the character of the average Japanese firm can be summed up in the words "personal" and "obligation." Japanese employees expect their superiors to take a sincere interest in their personal affairs.

This personal relationship that exists between employers and employees revolves around mutual obligations the two groups have to each other. The employees of Japanese companies tend to look upon themselves as equal members of a family, with management representing the parent figure. As the "parent," management accepts a wide range of responsibilities for the employees that transcends purely economic factors.

The most conspicuous and far-reaching facet of this philosophy is the policy of *Shushinkoyo*, or "Life-time Employment." Under this system, all permanent employees of a Japanese company normally expect to work for the same company for life. Larger companies hire only once a year, directly from schools. Sometime before the end of the school year, each company decides on how many new people it wants to bring in. Then students who are to graduate that year and want to work for that particular company are invited to take competitive examinations for the positions open. One company, for example, may plan on taking 100 university graduates (for training as junior executives), and 500 senior and junior high school graduates

The large companies usually hold their examinations just before graduation in the spring. But some firms are now in the habit of giving them earlier, so many students are lined up with a job long before they graduate. Some companies restrict their examinations to students from specific universities. In addition to hiring from urban schools, companies that employ large numbers of factory workers also maintain agents who canvass rural schools for new employees.

Small enterprises recruit their labor by advertising and through personal connections. A new employee is free to leave a company if he wants to, but few ever do. Because the companies fully expect to keep their employees for life, there is a strong tendency to emphasize character and academic background in their selection.

The wage system in Japan is based directly on the life-time employment system. The employee's starting salary is determined by his sex and level of education. Thereafter it is determined by years of service and number of dependents. As the employee's seniority and family responsibilities increase, his income tends to keep pace. In addition to his basic salary, the employee working for a larger company receives a wide range of fringe benefits. These include substantial bonuses paid usually twice a year, free transportation to and from work, free health and recreational facilities, and health and accident insurance. Many companies also provide their employees with low-cost clothing, lunches and housing. Major firms generally furnish their executives with free or virtually free housing.

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Under the Japanese wage system, every employee is assured of at least a minimum livelihood regardless of his job or qualifications, as well as a share in the company profits in the form of the regular bonuses.

It is also customary for Japanese companies to provide for their employees after they retire. The traditional system is the retirement allowance—a lump sum of money paid to the employee when he retires. For ordinary employees the amount is determined by multiplying their monthly wage by the number of years they worked. An employee making $200 a month when he retires after 30 years of service thus receives $6,000 as his retirement allowance. Retiring executives usually receive an extra year's salary as their retirement allowance. A relatively new system is the retirement pension. Under this system the retiring employee receives a monthly pension instead of a lump sum allowance. The amount of the pension, which is for 10 years and not for life, is based on approximately 20 percent of the employee's monthly wage at the time of his retirement. In other words, an employee making $200 a month would receive a pension of $40 a month for 10 years from the date of his retirement. Employees do not contribute to either the retirement allowance or pension.

The official retirement age in Japan for all employees except for top executives has traditionally been 55, but in recent years many companies are extending the age limit to 60 or even to 65. And it is also common that many companies make supplementary contracts on a one-year basis with key personnel after they reach 55 or 60 years old.

Social responsibility is highly developed in the Japanese businessman. He feels an overwhelming obligation to his employees, and as a rule will not lay-off or fire even temporary employees. The number of working hours may be drastically reduced to cut production, but he will make every effort to continue paying his employees full wages. Leading Japanese businessmen often express the essence of this economic morality by saying it is the primary task of the businessman to work toward the people's welfare. As a result of this philosophy, the typical Japanese company maintains many more employees on its payroll than are actually needed.

Promotions in most large Japanese companies have been primarily the fruit of long, faithful service. The employee more or less goes up automatically after spending the required time on each "step." This is known as the "escalator system." It takes seven and a half years for the newly employed university graduate to reach *kakaricho* (literally "someone in charge," often translated as chief clerk). The next jump to *kacho* or section chief takes five more years. An additional seven years is required for promotion to *bucho* (department chief). Only a very few go beyond this level.

The seniority system, however, fluctuates considerably according to a company, depending on the years of service required for promotion. Becoming popular of late is promotion based on the merit system.

Recognizing the various weaknesses of paying and promoting by seniority, the Economic Deliberation Council, an advisory organ to the Prime Minister, has recommended that the system be abolished and that employees be hired and promoted according to technical and administrative skills. More and more companies are resorting to hiring employees on a temporary rather than permanent basis, and a few companies have adopted the Council's advice, but it is not expected that a genuine merit system will be possible in Japan for some time.

Because of the family-like, life-time association of the Japanese company system, the human or personal factor takes precedence over other considerations. Job responsibility is not so clearly defined or exclusive. Work is assigned more or less on a collective basis. Each person is expected to look out for the interest of his fellow workers. Since bosses and supervisors do not have the authority to hire or fire or in most cases hold back promotions, they must manage by tact, by getting and keeping the trust and goodwill of their subordinates.

In most Japanese companies the employee is judged on his ability and achievements, as well as loyalty and diligence. What with the changes that have taken place in Japan in the last two decades there is now less and less resistance against the system of measuring an employee's value by his personal contribution to the firm. A few of the country's largest firms have recently adopted the system outright.

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In addition to the cooperative approach based on each contributing according to his ability, Japanese companies divide responsibility by a system known as *ringi seido*, which means something like "document system." Briefly, this system consists of circulating all proposals among a large number of management personnel who affix their signatures (seals) to them without any single person appearing to be responsible. Ostensibly this system allows lower level management personnel to make their opinions and ideas known to top management, who may or may not take them into account. In practice, every *ringi* is unofficially shown to the president and other executives, who almost always pass it along without expressing any judgment, before it is officially circulated. When it returns to them with the stamps of so many of their lower management personnel on it they invariably add their own. The overall effect, therefore, is that middle rather than top management tends to run the company.

The weaknesses of this system are widely recognized, and there is now a strong reform movement among Japanese companies aimed at "decentralizing" authority and putting it more on an individual basis. Another "revolution" going on in company management in Japan is known as *jigyobusei* or "divisionalization." This means that the different divisions of companies are being held individually responsible for marketing whatever they produce and returning a profit.

The managerial set-up in the large, typical Japanese company includes 14 executives. These are: a president, one managing director, three executive directors, seven directors and two auditors, in that order of rank. It should be noted that most Japanese companies have "inside" directors as opposed to the system in the U.S. where a significant percentage of the directors of a particular company are appointed from the outside.

All larger Japanese companies have ambitious training programs for their employees, new and old. The training period of the average large company ranges from three to six months. But many of the top-ranked companies have programs lasting from one to three years.

A typical on-technical training program for junior executives consists of six weeks of lectures on company regulations, job systems, management control, sales control and general business affairs. This is followed by three to five months of on-the-job training in the various divisions of the company.

Since most new employees are actually hired while they are still in school, many companies conduct "preliminary" training courses which the new employees attend before graduating. Other companies offer correspondence courses to would-be employees during their last year of school.

According to a survey of the Labor Ministry, the length of the work week is 48 hours at 53 per cent of the offices and factories where more than 30 employees are working, as of Septemper 1968.

The particular strength of the Japanese company system springs from the traditional social attitudes and character of the Japanese. The Japanese were taught for centuries to respect authority and to work cooperatively and unselfishly. In return for this, they were guaranteed protection and a livelihood. This system was held together and made to function smoothly by minutely defined personal obligations. In the old days the focal points of these obligations were, in ascending order, the family, the clan and the central Goverment. The introduction of democracy into Japan weakened and in some cases completely severed these feudalistic ties. With the change-over to an industrial economy and the postwar introduction of free competition, the means of earning a living became the focal point in the lives of the Japanese. In no time companies replaced the family and the clan in the social fabric, inheriting the loyalty, the service and the respect once given to these feudalistic units.

The relationship between an employer and his employees is therefore not strictly an economic one. As a result, the average Japanese employer gets from his employees a degree of loyalty, cooperation and effort that is unsurpassed. In turn, he feels responsible not only for the economic welfare of his employees but also for their personal and spiritual well-being. This feeling of mutual obligation is repeated on every level of Japanese company management, each responsible person doing his best to take care of those under him. The higher a person rises in management the stronger becomes this feeling—not only because this is the only way he can gain the cooperation of the people beneath him but also because it is an inbred social characteristic.

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Notes from a visit to Nissho Iwai Company - Mr. Yoshio Imanishi, Director, Deputy General Manager of Corporate Planning and Coordination Division, Nissho Iwai Corporation (a general trading company - Sogo Shosha) - October 7, 1983.

1. There are several large trading companies in Japan: Nissho Iwai Company, Mitsubishi Company, Mitsui Company - these are called Sogo Shosha.

2. A large trading company coordinates and plans all factors involved and makes all plans for a large development or project - the trading company sort of "lubricates the coordination".

3. An example of a project target schedule for a liquified natural gas project:

   A. Process selection.

   B. Finding the potential gas reserve area.

   C. On site engineering study.

   D. Financing through banks.

   E. Sales contract.

   F. All transportation involved.

   G. Plant facilities.

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Sogo shosha — key participants in the international trading arena

Sogo shosha. Literally translated from Japanese to English the two words mean "general trading companies." But there's more to sogo shosha than that description implies. Much more.

Perhaps no other group whose focus is world trade, and certainly no single company, has the trading expertise, operational versatility, and overall influence of the sogo shosha.

They are sixteen highly sophisticated Japanese corporations. Together, they employ about 80,000 persons worldwide. They are active in virtually every nation in the world.

By name, the sogo shosha are: Chori Company, Ltd.; C. Itoh & Co., Ltd.; Itoman & Co., Ltd.; Kanematsu Gosho, Ltd.; Kawasho Corporation; Kinsho Mataichi Corporation; Marubeni Corporation; Mitsubishi Corporation; Mitsui & Co., Ltd.; Nichimen Co., Ltd.; Nissho Iwai Corporation; Nozaki & Co., Ltd.; Okura & Co., Ltd.; Sumitomo Corporation; Toshoku Ltd.; and Toyo Menka Kaisha, Ltd.

Sogo shosha bring together the fields of finance, engineering and construction, communications, transportation, wholesaling and distribution, marketing, natural resources development, and many others, for a common purpose.

That purpose is to facilitate and develop trade flows and industrial activities at both the international and domestic level.

Characteristically, sogo shosha differ from most companies in that they are not necessarily user- or maker-oriented. Rather, they are supply-demand oriented and function as problem solvers.

They seek out demand and then look for ways to supply it, either through assumption of an intermediary's role in three- and even four-way trade deals, or as themselves creators of a trade flow.

They also work to create demand for products in specific markets and to increase trade flows to existing markets. They look for weak spots in existing trade flows and industrial development and attempt to shore them up.

It's easy, but inaccurate, to think of sogo shosha in terms of their being a conglomerate or merchant bank. Certainly both have points in common with sogo shosha. However, there are some fundamental differences, which will be explained further on.

Specifically, sogo shosha offer a well-oiled network of broadly-based international and domestic trading services that are used to stimulate trade flows.

The original purpose of sogo shosha was to serve the interests of Japanese companies. Now, however, one of their prime activities is the import and export of goods on behalf of manufacturers and buyers of commodities in other nations. Thus, they now serve an international clientele, and do so on a vast scale.

Historical roots

Sogo shosha beginnings go back to 1868 when Japan shed its cloak of self-imposed isolation and set about changing from an isolated feudal state to a modern nation.

That meant trade. And Japan actively pursued trade from the start of the modern era.

At first, no one in Japan had the expertise to conduct foreign trade, resulting in international commerce being dominated by foreign trading companies. Later, as Japan's Meiji era leaders came to a consensus and stimulated the industrialization of Japan, trade gradually shifted to Japanese trading houses.

In the 1890s, the growth of the cotton spinning industry gave invaluable stimulus to the trading companies. In fact, demands for raw material by this new industry led to the formation of the predecessor companies of some of today's largest trading firms.

Japanese trading companies handled only 1% of their own trade in 1874, but by 1918 they reached the point where they were conducting 80% of Japan's foreign trade.

At this point, trading companies began investing in manufacturing as well as supplying raw materials. And by the

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beginning of the present Showa era in 1926, the general traders were engaged not only in the import/export trade but also in extending their roles as trade and finance intermediaries in domestic industries and foreign companies.

These early trading houses were somewhat similar to today's sogo shosha, though they didn't have nearly so wide a scope of operations. They, too, introduced new technology, provided information, set up overseas offices, handled a large volume of trade, operated private communications systems, owned their own ships, and in general sought out problems in their limited world of international business and set about solving them.

The destruction of WWII was so complete that probably no one would have believed that Japan could become a significant economic power in only two or three decades.

The environment for trading houses changed. The two biggest traders, Mitsui and Mitsubishi, were dissolved: a blow to overall foreign trade, but a boon to other traders who moved in to fill the temporary vacuum.

Depression following the Korean War necessitated a change in structure for both the trading houses and the Japanese economy – less concentration on textiles, and a shift to heavy and chemical industries.

This restructuring of Japanese industry led to the trading companies acquiring the characteristics that warrant their being called sogo shosha.

Rapidly expanding industry and increas ing exports gave rise to a critical need for a long term, steady supply of raw materials. Here, sogo shosha assumed a new role: that of organizer. They organized joint investment and resource development ventures, expanded grain supplies, and increased sources of food and other essentials.

Volume transactions at low commissions was the dominant method of operation.

On the other hand, sogo shosha acted as commissioned merchants for manufactured goods of all kinds, always in the vanguard of Japanese exporting.

Changes in the demand structure always causes a shift in sogo shosha policies. For instance, the appearance of a mass market in Japan led to sogo shosha becoming involved in urban development, housing, fashion, distribution, market consulting, and engineering.

Sogo shosha also invested in businesses within member banking groups, strengthening internal ties. Subsidiaries grew in number during this period, both at home and abroad. All in all, sogo shosha establish ed a firm and stable alliance with financial and manufacturing sectors in Japan and overseas.

Increasing competitiveness of Japan's plant equipment industry and engineering technology led to a key role for sogo shosha in the promotion of plant exports. Sogo shosha "problem" orientation showed the possibilities of plant export to developing nations. This was not an entirely new activ ty for them, for the earliest trading houses in Japan were doing just the opposite in the 1870s—importing technology and capital equipment.

The entire history of sogo shosha, particularly since 1965, has been one of identifying problems and finding commercial solutions for them. They bring a unique set of abilities and resources to bear in solving these problems and play an increasingly important role in world trade today.

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Sogo shosha work in many ways to stimulate world trade

Intermediaries

Acting as trade intermediaries is the basic function of sogo shosha. In this role they perform virtually every activity neccessary to assure the smooth sale of one country's goods to another country. Example: handling the sale of Indonesian oil to the United States. Domestically, sogo shosha have the experience, personnel, and overall clout to pave the way for trade entering Japan. In fact, most major items pass through the hands of sogo shosha. They have long been recognized as the most efficient and economical conduit through which to sell goods in Japan.

Distribution

In connection with their role as trade intermediaries, sogo shosha provide access to major distribution networks both internationally and domestically. Through the years they have established many of their own distribution centers in addition to the usual channels through which are handled a variety of important foodstuffs, raw materials, and other products.

Organizing

The role of organizer for business projects both in Japan and overseas is relatively new for sogo shosha, but it is one for which they are well suited. Because of their wide capabilities and talents in dealing with complex trade problems, sogo shosha are able to bring together the interests and resources of interrelated business and government organizations. By consolidating these interests they are able to offer comprehensive services to meet client needs insofar as undertaking difficult projects, creating new businesses, or introducing new products and services. They organize individual firms into a cohesive group for specific projects and work to iron out any points of difference among group members. Most of those projects and businesses organized by sogo shosha are done so by virtue of their enormous personnel and support facilities.

Financing

The financial operations of sogo shosha have branched out in many directions. To assist trade development, sogo shosha assist client firms by providing extensive credit to companies in the domestic market, as well as through the purchase of equity, direct loans, guarantees for client obligations, and helping other companies to secure financing from other institutions. Many financial institutions, in fact, will make loans on the strength of a sogo shosha involvement with a project alone.

Investment

Sogo shosha focus their investments in the areas of resource development, industrial production, and product marketing. Sogo shosha also act as investment intermediaries, assisting firms with information about host countries, marketing, etc., and in some cases even participate in the management of the company. Sogo shosha also assist foreign host countries in locating other foreign firms suitable to that country's business environment and in inviting them to invest there.

Joint Ventures

Sogo shosha have often introduced Japanese manufacturers to overseas suppliers and the result has been a joint venture between the two. Likewise, many Japanese suppliers have been introduced to overseas manufacturers with the same result. Sogo shosha have also brought together manufacturers and suppliers from countries outside Japan for the purpose of forming a joint venture operation when advantageous to trade. Sogo shosha sometimes hold a portion of the equity in such a venture as a commitment to it.

Resource Development

The growth of Japan's steel industry first stimulated sogo shosha to organize major raw materials development projects internationally in order to supply the future needs of this industry. Sogo shosha have

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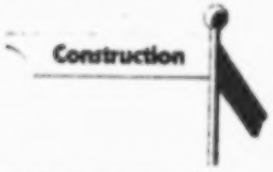
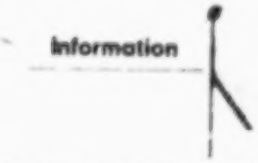
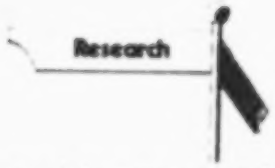
brought together steel companies and major developers overseas, with sogo shosha themselves assuming some of the risk inherent in such arrangements by signing long-term contracts. Other development operations have resulted in the procurement of coal, copper, zinc, lead, cobalt, bauxite, nickel and uranium from various world areas. The development activities of sogo shosha have also expanded to cover procurement of crude oil, natural gas, salt, fish, lumber, pulp, and other materials.



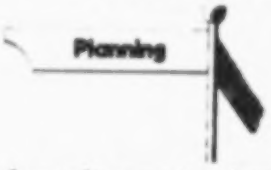
Sogo shosha involvement in construction projects is regarded as a variation of their function as organizer. It is not uncommon for sogo shosha to negotiate a construction project, a plant export for example, and to act as general contractor for the project. This is because engineering firms must usually combine their engineering resources with the financial and other commercial functions of sogo shosha. Working together, the two provide unified leadership for the myriad companies usually involved in such a project.



Together, the 16 sogo shosha represent a communications network that is without parallel in the private sector. One sogo shosha lends an entire floor, thousands of square feet of floor space, to its communications center. It's jammed with telex and facsimile machines and computer terminals linking 187 offices scattered throughout 77 countries. Another sogo shosha has over 3,500 employees reporting from around the world through computer-linked exclusive lines. It is linked between Tokyo and New York by 11 lines, and New York offices are linked to London by six lines. An average of 50,000 messages pass through the system each day. What kind of messages? You name it. Quotes on various ores, political analysis, and the results of all kinds of research, just to scratch the surface. These are only the networks of two sogo shosha. The rest have similar, if not comparable, communications networks of their own, which are made available to their clients.



Research of all kinds is part of sogo shosha trade intermediary activities. Sogo shosha appraise the demand for goods in overseas markets. They identify appropriate channels for marketing and distribution. Overseas, sogo shosha help select projects feasible from both the local and Japanese point of view, and assess the kinds of problems that may require special attention. In the area of financing, sogo shosha perform exhaustive research on all available financial resources before one or more means of financing is chosen for a project.



Sogo shosha are integral to world trade planning because they are able to plan and execute virtually every facet of international trading projects. They create new companies, act as intermediaries for trade transactions between existing companies, provide financing, marketing research, and a host of other services. Because sogo shosha have successfully planned and completed so many international projects their experience is exceptional in this area.

Sogo shosha, in their function as international trade intermediaries, arrange for the transportation of products from suppliers' delivery points to final destination at the lowest possible cost in the shortest possible time. The form of transportation, of course, varies according to type of shipment and logistics involved.

The goal of sogo shosha is to expand marketing activities for numerous products worldwide. A vast communications network feeding research and market information to sogo shosha and their clients helps to keep them abreast of trends in areas around the world so that they might better accomplish that goal.

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JAPAN'S GENERAL TRADING COMPANIES

BY HERMAN KAHN

The eminent role that trading companies play in the Japanese economy stems as much from historical and cultural reasons as from the economic role they play. All three factors are important, and help preserve this eminent role even in a period when the economic function of the trading company is changing.

Since the Meiji Restoration, some hundred and ten years ago, trading companies have played a particularly important role in securing raw material imports and in developing markets for Japanese manufactured exports. The trading companies have traditionally provided a pooled sales force and pooled purchasing department for numerous small scale businesses that could not afford such services on their own, and that could never operate as efficiently or as productively without the aid of such pooled resources. This function of pooling of purchasing and sales fits very well with a traditional Japanese predilection for group-oriented activities, and particularly well with a predilection to organize relationships with foreign countries in well-defined channels. Meanwhile, domestically the trading companies provided a variety of credit facilities for small and medium size producers, wholesalers, and sub-contractors, enabling such firms to participate indirectly in international trade to contribute to and benefit from trade.

Much of the original economic function of trading companies is changing today, in line with various changes in the Japanese economy itself. Japanese producers are often establishing their own sales and purchasing units abroad, and independent distributors in the domestic market are entering the field in both the wholesale and retail end and gradually increasing the range of imported consumer goods being made available in Japan. Nevertheless, relationships the trading companies have built up over the years are strong enough to enable them to change with the times and remain dynamic and productive units of the economy, and increasingly of world trade in general. They themselves are establishing new ventures in the consumer sector, often in conjunction with a foreign company whose technical know-how provides prospects of excellent sales in the still relatively insular Japanese market.

Rather than seeking to achieve quick profits on single deals, the general trading companies, or sogo shosha, like to build long-lasting, loyal relationships, based on very high volume. Thus Japanese trading companies typically realize profits of 1.7 to 2.0 percent on total volume, which in the last fiscal year ran to around $219 billion. These companies often take losses on certain deals because of the special problems of certain close customers, just as family businesses give discounts to relatives. They work most comfortably with other Japanese companies that also operate on the basis of mutual loyalty, but the basic concept is and has been applied between a Japanese trading company and a foreign company as well.

Given the unique character of these trading companies, the charges for their services are a small price to pay for hundreds of years of marketing experience that even a large company could not hope to gain without many years of trial and perhaps costly error. The enormous size of the companies is a great asset. It permits

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them, for example, to create superb private communications networks based on satellites and computers, further backed by a business intelligence operation that rivals even those of governments. As a result, these trading companies can keep tabs on global marketing conditions and match up sellers and buyers all over the world as quickly as anyone, on the average. This gives Japan a great advantage in dealing with the rest of the world, although as the Japanese economy grows bigger and bigger, these same advantages are shared increasingly by the countries buying from and selling to Japan.

These trading companies have a great potential for acting as a conduit for capital investment. While they are already doing so, and have a long record in this kind of activity, I feel sure that the scale of these operations will expand enormously in the future. Their great knowledge of local conditions and access to extraordinarily large sums of capital have given them a unique capability to invest large amounts of money very efficiently. Indeed, this role could well assume a major position in the future operations of these companies.

If Japan is to prosper in the future, it must import as well as export. Indeed, the size of Japan's future exports may well depend on how much is imported. The trading companies can facilitate this process by passing on to Japanese consumers the low prices which they can make possible simply by being so efficient. Since Japan has now reached the point where it can and should become a larger importer, the trading companies are in a unique position to benefit both themselves and the countries with which they deal by bringing this about.

I expect to see Japanese trading companies playing an increasingly important role, for example, in the development of the Third World countries. This should be especially true for what I call "middle-income" countries. These rapidly growing countries such as South Korea, Taiwan, Mexico, and Brazil, have a total population of about three quarters of a billion people, and will produce about two-thirds of a trillion dollars in gross product this year. The trading companies are well suited to accelerate the process of development of rapidly growing markets of this kind.

The sogo shosha are an almost uniquely Japanese institution. The only other country where truly comparable institutions are found is South Korea, though somewhat similar companies exist in Great Britain. Those in Japan and South Korea stem from a Confucian cultural tradition that emphasizes harmony and community. They operate like an extended family, following the principles of filial piety and loyalty – within these companies and in dealings with the clients they serve. Those Confucian cultures that have not given birth to large trading companies do not do so precisely because their familial ties in the literal sense are too strong to permit the extension of these loyalties to an outside group or surrogate family like the company. While there has been some talk of attempting to set up a government-owned trading company in Taiwan, it must be realized that these sogo shosha are first and foremost communal and human organizations. They can only be grown, not manufactured, and the Japanese trading companies have grown into effective organizations indeed.

Herman Kahn

Herman Kahn

Mr. Herman Kahn is a specialist in public policy analysis. He has been with the Hudson Institute since its founding, and has directed its research programs in such fields as U.S. foreign and domestic policies, economic and social development of various countries, and international business.

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Notes from an Address from Mr. Takeo Kishida, Director, Assistant General Superintendent of Mizushima Works, Kawasaki Steel Corporation, Kurashiki City - October 17, 1983

1. Kawasaki Steel Corporation is the fifth largest steel producer in the world (80 million tons per year).

2. Corporation has several sites - must consider the following when choosing a site: acreage needs - transportation (must have access to the sea), needs abundant water supply for "cooling process", areas with few natural disasters, if possible (typhoons and earthquakes).

3. The site at Kurashiki City is 98% self-sufficient (water is re-cycled, air pollution is controlled by air collectors, energy resources are being "saved" and re-cycled).

4. Continual emphasis on improvement of equipment - Japanese workers are enthusiastic about working with good equipment.

5. The corporation looks for the best university students from the best universities. (From the National Universities of Tokyo, Kyoto, Tsushi, Kushu, Osaka and from the Private Universities of Koho and Wasara).

6. Students in the technical fields in the universities tend to work harder than students in the humanities.

7. The corporation looks for "balance as a whole" in the company - there is corporation training once employed - this training must reach all employees - if it does not the "balance" desired in the company will not be achieved - success depends on the cooperation and productivity of the whole group in the company.

8. The"Ringi System" : unique to Japan - has to do with mutual feelings about plan and problems - system promotes the idea of approval at each level - from the lowest to the highest - consensus thinking and problem solving.

9. This site employs 9,700 people plus 5,000 working as subcontractors (on the same site) for a total of 15,000 employees. One problem facing Japan is an excess labor force - this faces all companies when you talk about life-time employment and retirement - this company can "farm out" employees to sub-contractors and replace with new workers.

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Notes from an Address by Mr. Michio Tsuiki, General Manager, Public Affairs Department, Toyota Motor Corporation - October 19, 1983

1. Toyota City: an independent government municipality - approximately 300,000 population - company employs about 58,000 people - most live in Toyota City with their families - if the related company employees are counted then there are about 150,000+ jobs related to the auto industry in Toyota City - most of the Toyota Corporations plants are located in the general area around Toyota City - there are 320 Toyota dealorships in Japan for domestic sales and approximately 6,000 dealorships overseas for foreign sales - labor unions in Japan are within the company - this helps form a "close relationship" between labor and management - treat all employees the same.

2. Economic issues involving Japan and the USA:

   -Issue of "protectionism" - must be solved - currently much misunderstanding between the two countries.

   -Economic problems are becoming more political in nature - when politicians become involved the problems become vague - causes more misunderstanding - Toyota Company is contacting politicians to consider better long-term Japanese-American relationships.

   -Japan must purchase raw materials from other countries - has few of its own - then Japan must export to survive.

   -Current agriculture problem between Japan and the USA involves beef and oranges. Japan produces both and seeks to protect its own farmers - must consider the Japanese farmer and his problems - Japan does rely on rice and wheat imports from the USA.

3. Future prospects in the automobile industry:

   -Produce cars that consume less fuel - make cars lighter (in weight) - need materials to replace steel, etc.

   -Use of electronic technology in cars (example: small computers).

   -Installation of electronic devices for increased safety.

   -In the next 5-10 years no real basic change in automobiles.

4. Economic success of Japan related to its respect for knowledge and its relationship and application to technology.

   Japan is "fertile soil" to adapt from other cultures!

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The Spirit and the Ideas that Created Toyota

THE FIVE MAIN PRINCIPLES OF TOYODA

On October 30, 1935, the employees of Toyoda Spinning and Weaving Company assembled before a bust of the late Sakichi Toyoda, sculpted by his wife Asako, and heard the Five Main Principles of Toyoda read for the first time. The men who drafted these principles were close to Sakichi Toyoda during his lifetime, and the principles represented a summary of his own personal philosophy. Although the words today may sound old, the ideas are as fresh as they were in the 1930s, and they still live in the corporate policies of companies in the Toyota Group.

- Always be faithful to your duties, thereby contributing to the Company and to the overall good.
- Always be studious and creative, striving to stay ahead of the times.
- Always be practical and avoid frivolousness.
- Always strive to build a homelike atmosphere at work that is warm and friendly.
- Always have respect for God, and remember to be grateful at all times.

One of Toyota's long-held principles is to 'always be studious and creative, striving to stay ahead of the times.' With that principle in mind, we have dedicated ourselves to technical development and have hoped to contribute to society by offering high-quality, high-performance automobiles at reasonable prices through efficient production methods and a unique quality control system in which all employees participate.

Fortunately, many people the world over have appreciated our efforts and have warmly accepted and used our products. For this we owe a great deal not only to our customers but to others around the world who have supported us, including of course those in our sales organization.

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TOYOTA MOTOR CORPORATION

Employment

1. Labor-Management Relations

Unlike labor unions in the United States and European countries, Japanese labor unions are company-based. In other words, a union consists only of the workers of the company. The philosophy inherent in labor-management relations in Japan is that the healthy growth of a company is essential in improving the living conditions of its employees. Those conditions of well-being, on the other hand, we consider essential in achieving higher productivity with higher morale among our workers.

Labor-management relations of Toyota are based on a "firm relationship of mutual reliance" developed over many years of close consultations between management and labor representatives. Our mutual goal is to create a stable, fruitful balance between improving worker lifestyles and continuing corporate development compatibly.

2. Working Conditions

In general, working conditions in Japan have made considerable improvements in recent years. In addition to better wages and shorter working hours, the terms of employment for many Japanese corporations include such additional benefits as lunch subsidy, commuting allowances, housing assistance, as well as a chance for further education and training programed systematically by the company.

Toyota has sought to insure a stable and long-lasting affluence for its employees through a variety of measures to improve the health and welfare of workers, standards of living, as well as to create better conditions in terms of both wages and working hours.

(1) Number of Employees

Office, Technical Staff	Shop Workers, etc	Total
20,000	38,000	58,000

(2) Average Wage: ¥2,520 per hour

(3) Working Hours: 8-hour day, 40-hour week

(4) Days Off:
- 2 days each week (Saturdays and Sundays)
- Summer vacation for about 10 days and winter (New Year) vacation for about 10 days
- In addition to the above, each employee is entitled to take paid holidays for up to 20 days per year

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Statistical Highlights of 1982

(Unit = vehicle)

	Passenger Cars	Trucks and Buses	Total
Production	2, 258, 253	886, 304	3, 144, 557
Domestic Sales (Registration)	1, 173, 850	349, 936	1, 523, 786
Exports (Shipment)	1, 062, 841	602, 952	1, 665, 793

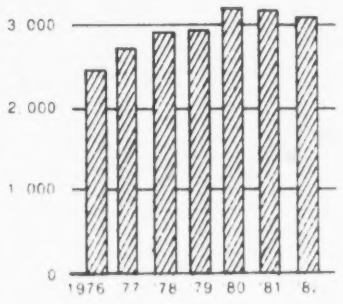
, Production Record

(Unit=vehicle)

	passenger Cars	Trucks and Buses	Toyota Total	Industry Total
1976	1, 730, 767	757, 084	2, 487, 851	7, 841, 447
1977	1, 884, 260	836, 498	2, 720, 758	8, 514, 522
1978	2, 039, 115	890, 042	2, 929, 157	9, 269, 153
1979	2, 111, 302	884, 923	2, 996, 225	9, 635, 546
1980	2 303, 284	990, 060	3, 293, 344	11, 042, 884
1981	2, 248, 171	972, 247	3, 220, 418	11, 178, 047
1982	2, 258, 253	886, 304	3, 144, 557	10, 731, 794

Toyota Vehicle Production

(Unit thou vehicles)



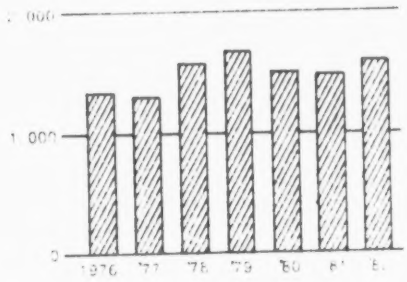
Domestic Sales Record (Registrations)

(Unit = vehicle)

	Toyota Sales	Industry Total	Toyota Share(%)
1976	1, 305, 857	4, 106, 269	31 8
1977	1, 303, 299	4 195, 202	31 1
1978	1, 513 024	4, 683 152	32 3
1979	1 611, 267	5, 150 897	31 3
1980	1, 494, 470	5 016 112	29 8
1981	1 492, 804	5, 127, 379	29 1
1982	1 523, 786	5, 261, 871	29 0

Toyota Domestic Sales

(Unit thou vehicles)



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Overseas Sales

The principal objective of Toyota in its overseas sales activities is to maintain a stable, long-term supply of products and parts which meet the demands of the respective markets around the world. Toyota vehicles today enjoy a reputation throughout the world for their high quality and fuel economy, as well as for the comprehensive service network Toyota has developed over many years.

While conditions in overseas markets have been rather difficult in recent years due to such factors as the instability of the world's currency situation and greater competition with overseas automakers in the small car field, Toyota intends to continue its efforts to produce and supply automobiles to serve people of the world.

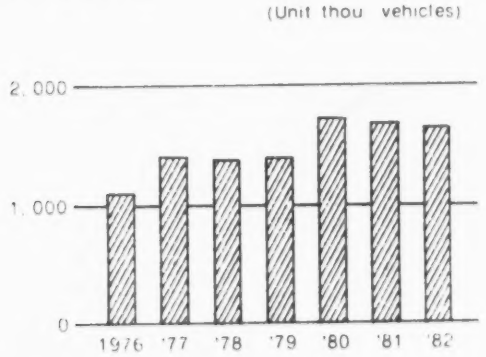
(1) Export Record (Shipments)

(Unit = vehicle)

	Toyota	Industry Total
1976	1, 177, 314	3, 709, 608
1977	1, 413, 235	4, 352, 817
1978	1, 382, 174	4, 600, 735
1979	1, 383, 648	4, 562, 994
1980	1, 785, 445	5, 966, 733
1981	1, 716, 486	6, 048, 446
1982	1, 665, 793	5, 590, 513

Note: Excludes KD sets from 1979.

Toyota Vehicle Export



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Overseas Operation

Today, Toyota vehicles are used by people in about 140 countries, and are proving their reliability around the world. For Toyota, the most important consideration in its relations with these countries has always been "co-existence and co-prosperity."

Based on these considerations, Toyota has sought to create and supply vehicles that respond well to the needs of the world's different markets. At the same time, the Corporation has been implementing the production or assembly of Toyota vehicles and components in 19 countries with the aim of co-operating in the growth of local economies.

As another step based on this principle of "co-existence and co-prosperity" with the nations of the world, Toyota is now promoting the procurement of overseas parts. This is not simply the import of automotive parts from abroad. We also promote local parts purchases by our overseas production and assembly plants, distributors and sales outlets all over the world.

Overseas Activities Organization

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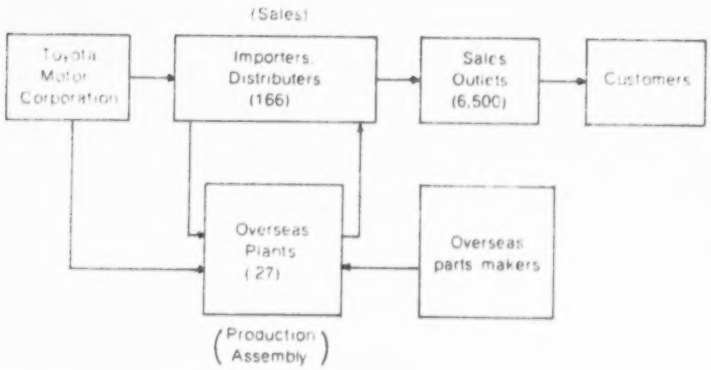

Overseas Production and Assembly

Toyota's overseas production and assembly operations not only contribute directly to local economies, but also foster local development through technical guidance and assistance.

Toyota intends to continue overseas production and assembly operations which meet the particular local conditions and requirements.

(1) Overseas Plants of Toyota Vehicles & Parts

19 Countries, 27 Plants.

	No. of Countries	No. of plants
Asia and Oceania	6	12
Latin America	4	5
Africa	4	4
Europe	2	2
Middle East	2	3
North America	1	1
Total	19	27

Notes from an Address from Mr. Mitsuji Teranishi, Deputy President, Asics Corporation, Osaka - October 12, 1983

1. Post-World War II economic development:

After WW II the industrial production of Japan was reduced to one-third - also on-fourth of the major cities were burned down.

1945-1955: Reconstruction - "Democratization" process - dissolution of former economic controlling groups - anti-monopoly laws introduced - labor acts introduced - government introduced "weighted policy" favoring economic development.

1956-1973: High Growth Period - heavy capital investment - emphasis on increase of exports - growth in GNP = 20-25% - shift to quality products.

1973-present: Quality production - exports - need to conserve energy (oil "shocks of 1973 and 1975 had a major affect on Japan).

2. Japanese Corporations:

A. Economic Body or Community: treats employees as members of the "club" (community).
   1. Life-time employment.
   2. Senority system.
   3. Guarantee of retirement.
   4. Welfare for better living environment.

B. Quality of Labor.
   1. Because of lack of resources education is very important (99.8% literacy rate).
   2. Unemployment rate is low (less than 2%).
   3. Wage gap between management and workers is narrow.
   4. No real problems betwen management and labor.

C. "Applied Ideas": ideas from where-ever in the corporation put to "our own" use within the corporation. Saturation point in products is inevitable - therefore must look at new products or change and refinement in existing products.

D. Shift to information/service industries for the future.

3. "Japan, Inc."

-Consensus thinking.

-"Protection" measures.

-95% of businessses are middle/small size.

-Internationalization of production - must trade - favor "free trade idea" - must balance exports and imports.

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Mr. Teranishi - Deputy President - Asics Corporation

Basic Philosophy of the Asics Corporation:

A. Asics will contribute to the overall world sporting goods market. As a private corporation it will seek a profit but also needs to offer service to the market. Will also contribute to the promotion of sports.

B. Manage the corporation as a community corporation. "Three forces" at work in the company - never competing but working together = labor, capital, management = need a balance of the three. This balance produces harmony and harmony produces trust. This is found in our company. Also senority (promotion) is based on a capability scale which is related to hard work and capability and hard work are rewarded in the company.

The following factors operate within the corporation:

1. Avoid former family influences (Asics is a merger of 3 companies).
2. No preference is given to graduates from particular universities over others.
3. Company exams must be passed to qualify for emplyment with Asics.
4. Fair distribution of profit to employees.
5. Corporation seeks to improve and make better the working/labor conditions.
6. Forming share-holders union of employees (currently employees hold about one million shares in the corporation and the company holds four million).

C. The corporation contributes to local community by bearing social responsibilities. Pays local taxes to help support local development.

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asics
Principal Executive Office:
2-3, Toyotsucho, Suita-City, Osaka 564, Japan
Phone: 06-385-1111 Telex: 523-3167
Cable: OSK ASICS SUITA

ASICS IS ... one of Japan's foremost comprehensive sporting goods firms, estimated to be the country's biggest sports shoes maker-distributor, and among the top five for training wear.

ASICS was established in its present form in July 1977, the result of a merger between three independently successful sporting goods companies: Onitsuka Co., Ltd., GTO Inc., and Jelenk Incorporated. The Company's name is an acronym for the Latin phrase "Anima Sana In Corpore Sano" ("a sound mind in a sound body"). With a total of 17 subsidiaries, ASICS engages in the manufacture and distribution of a diversified product range which includes sports shoes, training wear, ski wear and equipment, baseball wear and equipment, leisure wear and equipment and other assorted sporting goods.

Though the Japanese economy is in a period of low growth, the sporting goods industry continues to enjoy steady growth, receiving support from a health-conscious general public which increasingly devotes greater time to sports. However, the entry into the sporting goods industry of companies previously not involved in the field, plus competition from foreign sporting goods companies, has resulted in an extremely demanding

Despite this challenging market place ASICS managed a respectable performance due to consistent efforts throughout the organization. Consolidated net sales rose to ¥91,888 million (US$391,013 thousand) a 12.3 percent increase from fiscal 1982's result. Domestic sales totaled ¥82,357 million (US$350,455 thousand), 6.9 percent above the previous year's performance, while overseas sales rose to ¥9,531 million (US$40,558 thousand), a 97.6 percent increase.

During the year under review, ASICS directed full energies toward raising the Company's profile through cooperative participation in international sporting events. ASICS was an official supplier to the IX Asian Games in Delhi, India, between November 19 and December 4, 1982, and the XIII European Athletic Championships held in Athens, Greece, from September 6 to September 12, 1982.

ASICS continued to expand and improve product lines in fiscal 1983 and strengthened research and development, both top-priority areas. New products introduced include golf clubs, ping pong and rugby wear, and casual sports wear.

A Shoes Planning and Development Center was established in 1982. Having deployed the most talented, resourceful employees and trainees available for this new facility and installed new, advanced equipment, ASICS is confident of continuing to distinguish itself from the competition in this important field.

Fiscal 1984's Outlook

Competition in the sporting goods industry is certain to intensify in the year ahead. As well as continuing efforts to raise operational efficiency and improve corporate structure, ASICS will focus energies on the development and marketing of new products which cannot be matched by competitors. ASICS will strive to bolster marketing and promotional activities and steadily increase its client base to ensure continued success, regardless of the competition. The constant support of all our stockholders and associates is greatly appreciated and we hope we may enjoy the same support in the future.

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Notes from several meetings with Mr. Yasushi Hayashibara, Corporate Director, Administration, Mr. Sumio Kamiya, Corporate Director, International, and Mr. Mohammad Raees, Manager, Administration and Public Relations, Hayashibara Company Limited, Okayama City - October 18, 1983.

1. Hayashibara Company Limited consists of 10 companies and 2 foundations (non-profit) The company has diversified so that the profit making parts of the company can support the research parts. The major source of income to the company comes its land holdings, land useage, land management and land sales. The 10 companies and 2 foundations are divided into 4 divisions: research, diversified activities, land/real estate, community involvement. The research part is involved with studies and findings related to diabetics and cancer.

2. "Generation Gap" now apparent in Japan:

   -Education system before World War II produced leaders in government and business who pushed idea of country first, then company, then group, then self - in that order.

   -Education system after World War II (based on the American system) - more emphasis on individual and self-development.

   -In 5 to 10 years you will see a change/shift in attitudes within the country as well as in relationships between countries.

   -The two different educational backgrounds of government and business/industry leaders (age differences) provides conflict within government and business circles.

   -The Japanese nation is very education conscious (newer generation = 90% college educated) and also very quality conscious.

   -Leaders of Hayashibara Company feel that they are very "progressive" minded in reference to the generation conflict in the society (Company President is 41 years old - company founded by his grandfather and current President took over from his own father). See copy of New York Times article for further comments on the new "progressive"leaders in Japan.

   -Two points of view:

      Older generation - hard working, loyal, security, move within the system, life employment.

      Younger generation - more concern for self, self-interests, wife and children more influence on decision-making.

   -If there are no basic changes in Japanese society, conditions will stay the same but with inside changes and outside influences there will come societal change.

   -"Baby Boom" after World War II (people now 30-35 years old) - plus more people in the society and more people living longer.

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Hayashibara Company

-"Kingdom of Old People" - will affect the present social and medical welfare system - will need to make changes to handle these changes in the society.

-Companies are producing for younger generation - will need to shift to an older population market demand (in the case of Hayashibara Company there will need to be more medical products and needs provided for).

3. Hayashibara Company employee benefits (400 employees of which there are 70 scientists - 30 of the 70 are women - college graduates):

-lunches
-dormitory housing for unmarrieds
-housing and housing allowances for family employees
-transportation allowances
-company loans available to employees
-discounts at company owned hotels
-health insurance (common to all companies)
-death benefits
-maternity leaves

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HAYASHIBARA GROUP

During the past century, since our establishment in 1883, we have experienced many wars, depressions and hardships.

Our continued prosperity is attributed to the insight, unselfish devotion, and skills of our people.

Innovative technology and the continuous flow of new products have been and will continue to be the major factors in easing inflation and other economic problems. These are our major weapons to help combat the effects of inflation on the group and to maintain profits.

Never was the creation of a new realm in industry, based on a bioscience which complements the spiritual and cultural climate of the Japanese, so eagerly sought.

Fortunately, our products are demonstrating their value around the world, our research is at the leading edge of science; our production is efficient and of high quality; our marketing is effective, and we are confident of having good management and qualified employees whose skills, enthusiasm, and commitment to high standards will enable us to meet competitive challenges successfully.

We keep constantly in our minds that yesterday's success may be obsolete tomorrow, that the next challenge is always bigger, seemingly almost surmountable, and that adversities are there to be overcome. Also is reaffirmed our dedication to stay in the forefront of scientific and industrial development and to create a new realm in industry, which we will proudly pass on to future generations as our commitment to mankind.

Sincerely,

Ken Hayashibara

President

GOALS AND OBJECTIVES...
Executives and employees endeavor deliberately and constructively in close coordination

Hayashibara's basic philosophy, "Our work should be such that its results give the best return to mankind," is observed and pursued at virtually every corner of the group. Mere expansion and development of business and increase in the number of people are not the criteria by which Hayashibara evaluates greatness, competition and potentiality. More important are: the sincerity of the motivation in our undertaking; the qualities, efficiencies, functionality, and integration of human effort into fulfilling our assignments and in making our decisions; the benefits, advantages, and results which contribute more to society; and most importantly, the presence and ingenuity of innovation, creativity, and originality, which are the essential incentives in maintaining vitality and the identity of an organization. Additionally, in view of the relationship a company has with the community and society, the people involved directly or indirectly with a company should find his or her work meaningful and rewarding, and should have definite reasons for working in the organization which are strong enough to generate in them a deep sense of belonging and to recognize the importance of individual and collective responsibility.

With the above criteria, the more easily the history and background of Hayashibara and the direction it will follow will become apparent. In Hayashibara, all strategy, efforts and accomplishments are judged on the basis of long-term gains than on short-term profits, on the motivation to create, on the value of originality, and on the importance of facing challenges, problems and risks with the firm determination to contribute to mankind, rather than shrinking and evading them and accepting a carefree life.

All people in Hayashibara, from hamster keepers to vice presidents, are trained and encouraged to utilize every possible opportunity for frank discussion, communication, debates, self-development, delegation of authority and policy making, as incentives to vitalize creativity, originality and improvement. All in all, Hayashibara is striving with the courage, determination, and flexibility to face the changing challenges and complexities to come, and to find out solutions for seemingly insuperable and yet unknown problems. Though each section by itself is only a part of the group, all the people in it are conscious of the collective responsibility to keep the group active and are pursuing their goals in close coordination... not just today, but also to create meaningful causes in which to believe and to acquire confidence in tomorrow.

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TAIYO ESTATE COMPANY, LIMITED
(TAIYO SHOKUSAN KABUSHIKI GAISHA)

2-3, Shimoishii 1-chome, Okayama, Japan
Phone: 0862-24-4311
President: Ken Hayashibara
Capital: Issued ¥10,000,000

Taiyo Estate, founded in 1946, is responsible for development and transaction of real estate for the Hayashibara group. Its other activities involve the operation of parking lots and a driving range, and the management of property and liability insurance agencies.

In January, 1980, the company constructed a new building—Hayashibara Building-2, nine floors and one basement, 6,520m², with an expenditure of ¥1,400,000,000 on its property in Shinjuku, Tokyo. It is leased to the Chujitsuya Supermarket Chain as their headquarters. Further plans and projects are being studied to fully utilize the other estates of the Hayashibara group.

HAYASHIBARA BIOCHEMICAL LABORATORIES, INC.
(HAYASHIBARA SEIBUTSUKAGAKU KENKYUSHO)
2-3, Shimoishii 1-chome, Okayama, Japan
Phone: 0862-24-4311 Telex: 5922120 HYSBR J
President: Ken Hayashibara
Capital: Issued ¥10,000,000

The Research Development Department of Hayashibara Co. was reorganized in 1970 as Hayashibara Biochemical Labs. With a heritage of expertise accumulated over the years, it has contributed to the development of new products and processes in the microbial and biochemical industries. Thanks to the outstanding cooperation of Hayashibara Co., and other group members, Hayashibara Biochemical has and is continuously winning global recognition. Its business lines include production of microbials, enzymes, reagents, foods, pharmaceuticals, many of which are unavailable from other manufacturers, and licensing patent rights, know-how and other intellectual properties. The latest development is the industrialization of a system for mass production of human interferon utilizing hamsters in the obtainment of human cells at its new Fujisaki Institute. The achievements of Hayashibara Biochemical are well known in the scientific circle as demonstrated by the many awards from leading scientific societies.

JAPANESE RESEARCH INSTITUTE FOR PHOTOSENSITIZING DYES CO., LTD.
(NIPPON KANKOHSHIKISO KENKYUSHO)
2-3, Shimoishii 1-chome, Okayama, Japan
Phone: 0862-24-2301 Telex: 5922120 HYSBR J
President: Yasunaga Ogo, M.D.
Capital: Issued ¥2,000,000

The institute was founded in 1947 to produce photosensitizing dyes developed by Dr. Terutaro Ogata, Institute of Physical and Chemical Research, Tokyo, which were then utilized as a botanical growth stimulant. Subsequent research subsidized by the Ministry of Education, under the supervision of Prof. Kitasu Suzue, Medical School of Kyoto University, and by the Ministry of Health and Welfare resulted in the synthesis of over 6,000 dyes, 21 of which were approved as medicinals, and in the establishment of numerous applications, including those for pharmaceuticals, cosmetics, photography, printing, liquid crystals, solar energy conversion, laser emission, Q-switching, mode-locking and electronic appliances. Acceptance and recognition of its products helped greatly to establish the Institute as the sole specialist in the world. The new Fujita Institute was constructed to meet the ever-increasing demand for new uses.

HAYASHIBARA SHOJI, INCORPORATED
(HAYASHIBARA SHOJI KABUSHIKI GAISHA)
2-3, Shimoishii 1-chome, Okayama, Japan
Phone: 0862-24-4311 Telex: 5922120 HYSBR J
President: Ken Hayashibara
Capital: Issued ¥2,000,000

Hayashibara Shoji was founded with the initial objective of becoming the exclusive distributor of Hayashibara's products, at that time, starch syrups and dextrose, to leading domestic food processors as well as to its district agencies. The eventual diversification of products and wider activities made Hayashibara Shoji the exclusive domestic distributor of all products for the group. Sales offices located in Okayama, Tokyo, Osaka, Nagoya, and Fukuoka are serving department stores, supermarkets, pharmaceutical and chemical dealers. Its outlets are expanding to institutes, universities, hospitals, medical practitioners, pharmacies, and to major pharmaceutical manufacturers.

SHOWA TRANSPORTATION & WAREHOUSING, INC.
(SHOWA UNYU SOKO KABUSHIKI GAISHA)
2-103, Shimoishii, 1-chome, Okayama, Japan
Phone: 0862-31-6355
Telex: 5922120 HYSBR J
President: Kosei Kudo
Capital: Issued ¥12,000,000

Showa Transportation & Warehousing, Inc. was established in April, 1981 as a mergence between Showa Warehouse and Taiyo Transportation, to offer service and distribution of ever-higher efficiencies.
STW is located in an unparalleled site as an ideal distribution depot, adjacent to Okayama Station, with an exclusive side-track from the station, and close to National Highway Route 2, an important transportation artery of Japan.
The vast expertise accumulated by its predecessors over the period of four decades in serving the community in domestic land and sea transportation, issuing of bills of lading, chartering transportation means, and warehousing is contributing greatly to STW's high reputation as reliable and trustworthy.

KYOTO STATION HOTEL
849, Higashishiokoji, Shimogyo-ku, Kyoto, Japan
Phone: 075-361-7151 Telex: 5422456
President: Ryuzo Ikeuchi
Capital: Issued ¥150,000,000

Kyoto Station Hotel, adjacent to Kyoto Station, was opened in 1928 to accomodate the many distinguished guests from abroad who attended the Coronation of the present Emperor and Empress. It has established its position in the history of Japanese hotels, impressing its guests with its highly cordial service. In addition the hotel expanded its activities, operating the Takashimaya Department Store Restaurant, and preparing the world renown authentic Japanese vegetarian dishes served at Tenryuji Temple of Saga, Kyoto. Its annex, the Japanese-style Hotel Ran-Tei, on the scenic riverside of Arashiyama, boasts of its unsurpassed service enjoyed by nobles, statesmen and other distinguished guests from overseas. Kyoto Station Hotel marked a milestone in 1961 undertaking the management and operation of the prestigious new Kyoto Century Hotel also adjacent to the station and owned by Hayashibara Co., Ltd.

HOTEL RAN-TEI
12, Susukinobanba-cho, Ukyo-ku, Kyoto (Phone: 075-871-0019)

KYOTO CENTURY HOTEL
680, Higashishiokoji, Shimogyo-ku, Kyoto
(Phone: 075-351-0111)

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DESAKI DEVELOPMENT COMPANY, LIMITED
(KOKURITSUKOEN DESAKI KAIHATSU KABUSHIKI GAISHA)
2-3, Shimoishii 1-chome, Okayama, Japan
Phone: 0862-24-4311
President: Ken Hayashibara
Capital: Issued ¥3,000,000

Desaki Cape, jutting into the center of Seto Inland Sea National Park, is blessed with an ideal beach where every summer throngs of visitors enjoy sunbathing, swimming, and camping. Many come in spring and autumn to enjoy the splendor of the sea coast and the small islands scattered with capes and coves —all of which constitute the National Park. Projects are being studied to develop the area, with consideration to preserve the natural resources and to meet the strict regulations stipulated by National Park Law.

OKAYAMA CHUO OIL COMPANY, LIMITED
(OKAYAMA CHUO SEKIYU KABUSHIKI GAISHA)
2-2, Shimoishii 1-chome, Okayama, Japan
Phone: 0862-22-4543
President: Ken Hayashibara
Capital: Issued ¥1,000,000

Okayama is becoming vitally important as the link between Honshu and Shikoku in the Kansai area since the main arteries of traffic cross here. The Seto Bridge and the new Okayama Airport will further strengthen this position. The company, organized in 1971, operates service stations on properties of the Hayashibara group to serve this important traffic intersection.

HAYASHIBARA COMPANY, LIMITED
(HAYASHIBARA KABUSHIKI GAISHA)
2-3, Shimoishii 1-chome, Okayama, Japan
Phone: 0862-24-4311 Telex: 5922120 HYSBR J
President: Ken Hayashibara
Capital: Issued ¥100,000,000 Founded: 1883

Hayashibara Co., the nucleus of the Hayashibara group, was founded by Katsutaro Hayashibara, the great-grandfather of the president, at Amaseminamimachi, Okayama, in 1883 to produce malt-conversion starch syrups. After several expansions in production facilities and development of sophisticated technology since World War II, its activities have expanded to include acidic-enzymatic conversion dextrose, high maltose syrup and pullulan. Today, Hayashibara Co. is responsible for production and is the integrated brain center of the whole group. The internal accumulation of reserves gained over the past century is invested mainly in real estate scattered throughout the country, in securities, and in private enterprise. These are contributing greatly to the group's sound financial reputation. Its major business lines are the production of food, enzymes, pharmaceuticals, and packaging materials. Parking lots, a golf driving range, and sales of sporting equipment are also included.

ISHIMA DEVELOPMENT COMPANY, LIMITED
(SETONAIKAI ISHIMA KAIHATSU KABUSHIKI GAISHA)
2-3, Shimoishii 1-chome, Okayama, Japan
Phone: 0862-24-4311
President: Ken Hayashibara
Capital: Issued ¥1,000,000

The company was founded to develop Ishima Island which bestrides the prefectural border of Okayama and Kagawa in the Seto Inland Sea National Park. The island is well known for its excellent natural harbor, abundant spring water and marine resources. The area is receiving more and more attention as the Seto Bridge, spanning Honshu and Shikoku, is approaching completion. In cooperation with Desaki Development and Taiyo Estate, plans are being studied to develop the entire property located in the National Park into an integrated resort area.

HAYASHIBARA MUTUAL AID FUND
(HAYASHIBARA KYOSAIKAI)
2-3, Shimoishii 1-chome, Okayama, Japan
Phone: 0862-22-1250
Chairman of Board of Trustees: Ken Hayashibara

Hayashibara Mutual Aid Fund was established with donations from the Hayashibara family and members of the Hayashibara group as an endowment to aid the people of the Hayashibara group, and to help the handicapped and others in need by direct and indirect donations to the Red Cross Society, Community Chest and other nonprofit public service organizations. It has contributed to tree-planting compaigns and rehabilitation of juvenile delinquents. In addition to the above, the fund, in an unpretentious manner, continues relief work and helps children who have lost their parents in traffic accidents. It has also donated traffic signals, pedestrian bridges and street lamps to the community.

OKAYAMA MUSEUM OF ART (OKAYAMA BIJUTSUKAN)
7-15, Marunouchi 2-chome, Okayama, Japan
Phone: 0862-23-1733
Chairman of Board of Trustees: Shiro Nagano, Governor, Okayama Prefecture
Curator: Ritsuji Ohkuma

The late Ichiro Hayashibara, the former president, enthusiastically collected Oriental fine arts with the intention of establishing a private museum to help the public re-evaluate their heritage through appreciation of the creative productivity of Orientals. His will was executed through the generosity of the Hayashibara family, cooperation from governmental and civic organizations, and donations from group members. The museum is constructed in a beautiful environment, facing Okayama Castle and adjacent to the world-renown Korakuen Park.

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Japan's New Nonconformists

Technology Spurs Change

By STEVE LOHR

Special to The New York Times

TOKYO, March 7 — Japanese companies seeking new employees typically have one goal in mind: hiring the graduates of leading national universities. Masaya Nakamura, president of Namco Ltd., however, takes an entirely different approach.

In colorful magazine advertisements, Namco, a producer of video games, solicits reformed juvenile delinquents and C students.

"For game designers," Mr. Nakamura explained, "the knowledge acquired in school is not so helpful. I want people who think in unusual ways, whose curiosity runs away with them, fun-loving renegades."

Hardly a case in point, Toshinori Watanabe, a 36-year-old entrepreneur, holds undergraduate and advanced degrees in electrical engineering from Tokyo University, often described as Japan's Harvard, Yale and Princeton rolled into one. Yet he gave up the security of lifetime employment in a prestigious corporation to start his own computer software company.

"To work in a big corporation with a big bureaucracy did not suit me," Mr. Watanabe said. "To be part of a big company is like being a component in a big machine. It can be boring."

To be sure, such attitudes and practices are exceptional in Japan. But in fast-changing high-technology fields, there are an increasing number of executives taking new paths and trying new methods in a sharp break with the traditional precepts of the Japanese corporate community.

Many of the innovators are entrepreneurs who head small concerns, but there are also large companies experimenting with new management and organizational techniques in a portion of their business.

The new ways are being employed mostly in the so-called industries of the future, such as computer software and biotechnology, in which Japan is struggling to catch up with the United States. These areas demand individual creativity, which conventional Japanese management at times seems to inhibit.

Much of the impetus for change comes from engineers and scientists frustrated with the traditional Japanese management system with its emphasis on seniority and hierarchy," said Hiroshi Ebihara, an independent consultant in Tokyo.

Many, like Mr. Watanabe, have started their own companies. And these companies tend to have the same informal, individualistic style of management that many concerns in California's Silicon Valley are known for.

No Company Song

At Mr. Watanabe's company, for example, the 13 programmers can set their own hours as long as they finish assignments. Instead of a company song, the music in the offices is rock or classical, coming from the compact stereo sets most of the engineers have at their work stations.

Dress, too, is informal. The preference of Mr. Watanabe, who wears tinted glasses, runs to dark-colored shirts and flower-print neckties. A Beatles poster adorns his office wall.

"In the 1950's, we're seeing the high-technology niche-seeking entrepreneurs in Japan," observed Kenichi Ohmae, managing director of McKinsey & Company in Tokyo.

The entrepreneurial inclination, Mr. Ohmae says, is not new in Japan. Today's giant general trading companies, which epitomize the corporate establishment, were once considered firebrand entrepreneurs.

The Mitsui group, for instance, traces its origins to 1673 and the opening of a draper's shop. Before 1700, the samurai-turned-merchants had inaugurated the revolutionary policy of cash sales at fixed prices. A steady stream of Japanese business entrepreneurs has followed ever since.

Yet the current crop of entrepreneurs is different in "style and form" from their predecessors, as Mr. Ebihara notes. A key difference is that in technologically creative endeavors size can be a hindrance instead of the route to greater efficiency, as it usually is in marketing and manufacturing enterprises.

Small Staff Valued

In his office in Okayama, 750 miles west of Tokyo, Ken Hayashibara, the president of Hayashibara Biochemical Laboratories Inc., said recently that one of his policies for years has been to keep the payroll at no more than about 350 employees.

"People of the older generation think that expansion is the main goal of a company," the 41-year-old executive said. "But to be innovative, to create new things, it helps to not grow too big."

Hayashibara's scientists have developed a method for growing large amounts of interferon, an experimental drug, on the backs of hamsters.

At the same time, established corporations are trying to create a more entrepreneurial small-company atmosphere in some businesses. Hitachi Ltd., the Nippon Electric Company and others have used this tactic to stimulate the development of computer software, the encoded electronic instructions that tell computers what to do.

It is still too early to judge the success of these efforts to spur creativity by experimenting with new corporate molds. But some of the programs have already paid off.

For example, one of the C students attracted to Namco by its unusual ads was Toru Iwatani. Mr. Iwatani, now 27, is the inventor of Pac-Man, the international video game classic.

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Notes from an Address from Mr. Teruo Suga, President, Kanemata Corporation, Osaka - October 12, 1983.

1. Qualities looked for in potential employees:

   -Hard working
   -"Mixing" quality - harmonious person.
   -Balance of marks on school records.
   -Leaders in high school and university.
   -Must pass a company aptitude test.

2. Problem facing the company - how to meet the competition from the "Gang of Four" (Taiwan, South Korea, Hong Kong, Singapore).

3. Company does buy products from the outside (foreign) and sell to local retailers.

4. Company buys products from Japanese manufacturers - does not deal with major trading companies.

5. Company can act as a middleman between foreign producers and local retailers.

6. Kanemata Company: 380 employees - life-time employment - no firing - in-company shift if personnel has poor performance - staff training program. Each branch office (there are 15 such offices) operates an a distribution center and can supply goods quickly, in small quantities, to local retail stores (no need for local retail store to house a large inventory of goods). Headquarters develops new products based on perceived consumer needs. Sources of information for new products comes from salespeople, own manufacturing data, mass communication sources and information from department stores and smaller retail stores.

7. Retail outlets in Japan are changing (for Kanemata's line of products) from the "traditional hardware-type store" to home centers, building material centers and so-called "living centers".

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SHARP CORPORATION

Electronic Components Group

1, 2613-banchi, Ichinomoto-cho, Tenri-shi, Nara Pref. 632, Japan Phone: (07436) 5-1321

Ever since 1925, when Sharp built a factory to produce crystal radio sets in Osaka, the company has courageously explored new fields. Sharp has applied its unique, superior technology in products ranging from home to industrial use. Sharp also clearly foresaw the future of electronics and began LSI production in 1970. Since then, Sharp has been a leader in the development of LSI technology and its application to new products In addition to developing technologically-advanced products, Sharp has applied new technological breakthroughs to its own research processes and production systems. The results are highly reliable products which create new lifestyles at home and in business.

Today, Sharp products are distributed to 135 countries worldwide. These include the United States, the United Kingdom, the Federal Republic of Germany, Australia, Canada, and Sweden, where Sharp's major sales bases are located. Sharp's superior electronics technology in manufacturing and application is internationally renowned. And Sharp now has 34 overseas plants in 30 countries which continuously produce high quality products.

The great advances in scientific technology have led to striking new developments in consumer and industrial electronic products. Behind these developments are a wide variety of advanced electronic components. Sharp's Electronic Components Group has always been a pioneer in development technology. Now that same spirit is being innovatively applied to the new age of micro-electronics and opto-electronics. The production of electronic components in Sharp's own factories makes total quality control of products easier, which in turn develops a trust among customers for high reliability. Through expanding technological development and enhancing product reliability, Sharp's Electronic Components Group is continuing to develop systems to meet requirements both at home and abroad.

Business Creed

Sharp Corporation is dedicated to two principal ideals: "Sincerity and Creativity"

By devoting ourselves to the above two ideals, our work will bring genuine satisfaction and joy to people and provide a meaningful contribution to society.

Sincerity is the most fundamental of human ethics...Always work with sincerity.

Harmony is power...Trust each other for a united effort.

Politeness is a virtue...Be grateful and respectful to others.

Creativity is progress...Always have a mind toward ingenuity and improvement.

Courage is the source of a meaningful life...Tackle difficulties with a positive attitude.

Business Philosophy

We do not seek merely to expand our business volume but, by using our unique technology, we intend to contribute to the upgrading of the culture and welfare of people all over the world.

By encouraging the development of our employees' potential and by improving their living standards and welfare, we intend to parallel the growth of our Corporation with the well-being of our employees. Our future business prosperity is linked to the prosperity of our shareholders, clients, dealers and the entire Sharp family.

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Mainichi Daily News (TOKYO)
Friday, October 14, 1983

Inside Japan, Inc.

By Jon Woronoff

Competition Japanese-Style

In the press and even books about Japanese management, we read much about how the company is structured and coordinated but almost nothing about how it functions. It must be obvious even to the simple-minded that a company's purpose is not to create consensus among its own employees but to compete effectively in the market place.

In fact, an extraordinary urge for, and ability at, competing is one of the truly salient features of Japanese business. This is a competition which, be it mentioned in passing, is far more intense and destructive than can be found in most other countries. It frequently becomes so fierce that the Japanese have a disparaging term to refer to it, namely "*kato kyoso*" or excessive competition.

Obviously, the competitive struggles will take different forms in different sectors and at different times, but there is an amazing similarity to the way Japanese companies act and interact. This has resulted in a standard scenario which is repeated time and again.

It usually starts when a large number of companies, acting almost in unison, decide that a given sector or product offers exceptional potential. This is not surprising since Japanese employees have a strong sense of rivalry, one which is consciously nurtured by management and directed against competing companies. They constantly try to keep up with, or pull ahead of, one another.

This creates a tremendous bandwagon effect which is quite capable of turning an initially dull sector into a growth industry almost overnight not because it is inherently that good but because none of the competitors can afford to stay out. If it does not materialize, they will all have made the same mistake. If it would result in pathbreaking innovations or popular products, they cannot afford to be left out.

Getting into the field is not terribly difficult for the relatively large Japanese companies, equipped with substantial production capacity and research staff, and able to draw on the support of the company bank. Most products, including the most novel, can usually be produced by using different methods and can be altered just enough to get around the patent or model protection. The true pioneers rarely have more than one or two years' headstart over the rest of the pack.

Thus, within an amazingly short time, there are not a few but literally dozens of companies doing, or trying to do, the same thing. This has happened for just about any and every product, bicycles, motorcycles, ships, radios, digital watches, household appliances and now solar installations, VTRs, robots, pharmaceuticals and genetic engineering.

Overproduction

Obviously, with so many companies creating new facilities and expanding capacity, there will quickly be overproduction and it will be necessary to fight hard to win new customers. The normal competition will be aggravated by the fact that the Japanese are not only trying to sell but win market share and drive their rivals out of the market.

The confrontation usually takes the form of price competition as companies try first to bring costs down by improving their production techniques or increasing their economies of scale. In so doing, alas, they may have raised output to such an extent that the price will collapse anyway due to a sudden oversupply. This happened recently for the 64 RAM chips whose price plummeted to about a tenth of what it had been a year before.

Even when there are no natural economic causes for the fall in prices, it may arise from a purposeful strategy of undercutting the competitors. Prices will be brought down aggressively, not only to the break-even point but far below. Companies may have to take a loss of 10 percent, 20 percent or more, as has happened for ships, household appliances, or computers.

This is the first stage of *kato kyoso*. Naturally, among the mass of companies, some will be very weak or incompetent and should perhaps never have entered the field to begin with. Others, although good (often including the pioneers) may not have the financial backing. Thus, gradually, they will drop out and the ranks of producers will be thinned radically.

Of course, once the sector is

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"COMPETITION JAPANESE-STYLE" (PAGE 2)

more compact with fewer producers, the competition will let up and companies will try to replenish their funds and recoup their earlier losses. They will try to outdo one another more on quality or on service and shun price competition. In fact, if the field of contenders is narrow enough and the relations reasonably close, they may well jack the prices up to a level which more than compensates for their earlier sacrifices.

Over the years, as new models are introduced or new companies try to break into the sector, there can be similar competitive battles and price wars. Otherwise, things will be reasonably calm and the market share of each company will remain almost stationary. It is not until much later that the second major bout in the standard scenario takes place.

Saturated Mart

Somewhere along the line, for every product that exists, there must be a point when the market has become relatively saturated and starts shrinking. At that time, the various producers will again find themselves with excess capacity and stuck with machinery and personnel they cannot discard fast enough. Like it or not, they must produce and sell and, to do so, they must compete fiercely again.

This, too, has been a frequent phenomenon in the business scene. Indeed, the most severe cases of *kato kyoso* occur in the ailing industries like textiles, garments, pulp and paper, aluminum, and so on. But it is more deadly since it happens among companies that are themselves weakening and in sectors which the banks are less eager to shore up.

To put an end to the competition which, it is generally feared, would eventually be detrimental not only to the producers but the economy and nation as a whole, the Ministry of International Trade and Industry may intervene. When it does, it will usually propose the introduction of an antirecession cartel which normally provides for an orderly reduction in capacity by all the producers. Quite frequently, it will also include arrangements for merging the smaller, weaker units into larger, more viable ones.

Thus, periods of fierce competition alternating with period of passive coexistence or active collusion (which is not quite the same thing as harmony!) tend to typify the activities of many companies. Moreover, MITI's function as a referee and mediator in cases of *kato kyoso* is certainly just as important nowadays as its function of providing administrative guidance for growth used to be.

(Jon Woronoff is the author of Japan: The Coming Economic Crisis (Shin Nippon Jijoh) and Inside Japan, Inc. (Ijiwaru Nippon-ron).)

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Goal #6: To understand how the basic economic problem - allocating scarce resources among competing wants - is the same for the United States and Japan and how economic planning in the two countries compares and differs.

The economics of the nations of the world today involve the exchange of resources, products and technology. The balance of trade involving exports and imports is delicate and most important to all involved. The nations of the world today are very interdependent and becoming more and more involved with each other in terms of trade.

The following viewpoints explain and illustrate this interrelationship and interdependency between Japan and the United States:

A. Address by Mr. Mansfield, The United States Ambassador to Japan, October 6, 1983.

B. Address by Mr. Snowden, President, The American Chamber of Commerce in Japan, October 20, 1983.

C. "The World's Toughest Competitor Stirs a U.S. Trade Storm", Time March 30, 1981.

D. "'Made in America' Prestige Fades", L.A. Times, September 12, 1983.

E. "Reagan Warns Tokyo on Trade", L.A. Times, November 10, 1983.

F. "Japan Market More Open Than U.S. Thinks", L.A. Times, September 26, 1983.

G. "U.S. Firms Find Japan Trade Barriers Can Be Climbed or Sidestepped", L.A. Times, September 18, 1983.

H. "Japan Trade Surplus Rises to Record", International Herald Tribune, October 12, 1983.

I. "Government Urged to Solve Trade Tiffs With US" and "Japan to Restrain US Steel Exports", Mainichi Daily News, October 15, 1983.

J. "Detroit Again Warns of Japanese Threat", The Daily Yomiuri, October 20, 1983, and "Japan-U.S. Auto Trade", The Japan Times, October 6, 1983.

K. "Senators Seek Cuts in Japanese Autos", Mainichi Daily News, October 12, 1983, and "Toyota-GM Venture Approval Seen Soon", Mainichi Daily News, October 14, 1983.

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Goal #6 continued-

L. "Cheap Yen is Key Fuel for Japanese Car Companies", L.A. Times, November 27, 1983.

M. "GM Has Logic on Its Side in Toyota Car Venture", L.A. Times, 1983.

N. "$1-¥200 Exchange Rate Appropriate: Panel", The Daily Yomiuri, October 20, 1983.

O. "Japan to Strengthen Yen, Cut Tariffs", charts showing Japanese-American Trade and Japan's World Trade Position, L.A. Times, October 21, 1983.

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Notes from Address from His Excellency Michael J. Mansfield, The United States Ambassador to Japan - American Embassy - October 6, 1983

1. The United States-Japan bi-lateral relationship is the most important United States relationship in the world today - bar none!

2. Most difficult problem between the two countries is the trade relationship. The trade balance favors the Japanese: 1981 - $15.8 billion
   1982 - $16.8 billion
   1983 - $20.0+ billion

   The USA is pushing for more openness of the Japanese to United States products as the United States is open to Japanese products.

3. Japan is vulnerable - it must compete to exist - Japanese work hard - take pride in their products - very "civil" people - 60% of the people live on 2% of the land.

4. Japan is the chief beneficiary of international trade. Her main positive resource is her people.

5. Japan is a very vulnerable country due to her geography, her strategic location and her economy - she must import resources (Japan and Montana are the same size - Japan and California are close to the same size).

6. The only real bright spot for the USA in the USA-Japan trade relationship is in agricultural exports: 1981 - $6.6 billion worth to Japan.
   1982 - $5.6 billion worth to Japan.

7. World-wide USA business investment = $227 billion. $8 billion in Japan.

8. Defense relationship between the two countries is excellent. The USA does not want Japan to become a regional military power, but does favor more Japanese investment in self-defense.

9. Japanese defense - must consider these factors:

   -Article 9 of the Constitution of Japan renounced war and the creation of armed forces.

   -Must consider the reaction of Japan's neighbors because most were occupied by Japan during World War II.

   -Japanese culture works on "consensus" - must have people support for change.

   -US-Japan Mutual Security Treaty (1960) - "a good treaty" - United States to aid Japan only but our insistance - we will defend Japan.

   -We are their guests - bases in Japan are rent free - Japan "contributes" $1 billion to support (47,000 US military personnel in Japan).

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Mr. Mansfield - U.S. Ambassador to Japan

10. The US bases in Japan and the Philippines are our outer-most defense line we are here for our own security - if we remove ourselves,how far do we pull back, pull back to where,plus the costs involved.

11. Wish our trade was on the same basis as our excellent military relationship.

12. The US must resolve its own economic problems - we must produce better products at more competitive prices.

13. The Pacific is the area of the 21st Century - "Century of the Pacific" - one-half of the world's people live here - rich in trade potential and resources, both human and physical.

14. The US must be involved in overseas development assistance programs and in giving foreign aid.

15. The Japanese government has little to say in business and industry any more - operates within the "free enterprise system" - industries do what they want - MITI is advisory - its main assistance is to industries that are declining.

16. Japanese have an excellent relationship in their labor/management arrangements. US tends to be adversarial.

17. Auto workers in the USA earn about $25.00 per hour - in Japan workers earn about $12.00 per hour. This difference shows up in the cost of cars.

18. Japan has a disciplined educational system - much rote learning but much learning - families have a stake in the child and the system - the Japanese system is superior to our own. American educational system needs to get away from too many "soft" subjects - we need to quit issuing diplomas simply to get rid of kids in the schools - need to re-assure the teachers - families need to take more responsibility - need for more discipline in the schools.

19. We need to take pride in our country - the USA has had it too easy for too long - we need to wake up! Business/labor/government must work together - the world competition is too keen - we must be aware of the world and what is going on in it.

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Notes from an Address by Mr. Lawrence F. Snowden, President, The American Chamber of Commerce in Japan, Tokyo - October 20, 1983

1. US-Japan is the most important bi-lateral relationship in the world today for the United States. Trade relationship = $63 Billion (total trade value) - problem is in the imbalance between the two countries(favoring Japan): 1981 = $15 Bill.
   1982 = $18 Bill.
   1983 = $22 Bill.
   1984 = $30 Bill. (projecte

2. Issues of priority: trade and security.

3. Japan is the second most powerful economic power in the world (business view - takes money that it would have to spend on defense and uses on economic development - true in theory - hard to document).

4. Security not a serious short-range issue today but could be a long-range problem - Japan is doing something about defense expenditures - people feel must do more .

5. Trade - Japan is a difficult market place for foreigners - different society attitude - different is not wrong - just different - that is ok.

6. For 300 years Japan an isolated nation - none move out, none move in - a "closed nation" - opening comes with Commodore Perry (1854).

7. Japan a homogenous society - bond together by a difficult language for outsiders to understand - geography of Japan produces a closeness not understood by others. Americans take pride in their "melting pot" idea, their heterogenous society - Japan is a very different society - totally homogenous.

8. Influences that make business dealing with Japan difficult relate to the bureacratic controls - "cry" from Americans is that Japan is not open. Since 1980 change in the financial settings - foreigners can get Japanese financing.

9. Japanese bureacrats are professional/knowledgeable/from top schools/meticulous/ too good.

10. Leadership in Japan today has the message - times have changed. Prime Minister Nakasone feels that something must be done to open markets and Japan must deal with the imbalance of trade.

11. Trade imbalance: American auto industry blames Japan, but this is not fair - America is surrounded by Japanese success - we want good Japanese quality products - the criticism is unfair but the Japanese auto industry is a handy group to blame (particularly by the unemployed in the USA).

12. The US economy is the locomotive that pulls Japan, South Korea, Taiwan - if we have problems they have problems - we are their markets.

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Mr. Snowden - The American Chamber of Commerce in Japan

13. Japan - no resources to speak of - low cost imports (resources and food) and high cost exports.

14. Japanese autos - high demand in the USA - will not stop (of the top 10 cars produced, only one is a USA car).

15. American Chamber of Commerce in Japan very opposed to protectionist policies - unfair - only against one country = Japan).

16. Big world issue: Fair Trade vs. Free Trade (one of the strongest critics to free trade is the European Economic Community - an example: France will allow only 4% of Japanese cars into France).

17. 500+ successful American companies operating in Japan today.

18. Chamber agrees that Japan is a difficult market place, Japan has a difficult distribution system, Japanese consumers are demanding/"picky".

19. To establish a business in Japan the foreigner must be aware of: high cost - need to locate in Tokyo/Kobe/Osaka; must staff correctly - both nationals and foreigners; business relationships are built on personal relationships. Often takes 5-7 years to establish a good business in Japan.

20. Both nations in the future will be dealing with high technology - will be competitors.

21. 21st Century - the century of the Pacific - there is money in Asia - there is the desire to modernize in Asia.

22. Japanese businessmen: very Western by day - very Japanese by night.

23. Life-time employment is present today and will stay in the future.

24. Japan watching closely developments in South Korea, Taiwan, others in Asia (these are about 5 to 7 years behind Japan's economic developments.

25. American industry in the past has not been willing to "customize" its products for Japan (examples: in Japan doors do not open, they slide back and forth / door knobs need to be lower - smaller people).

26. Japanese people are willing to pay for high quality - they are very demanding.

27. Mutual Defense Treaty - one-way treaty - we wrote it but Japan supports it - we will help them - nothing says they must help us. Their defense is self-defense - they have no capability for "military adventurism".

28. USA needs to continue to develop its technology and out compete - move ahead.

29. Part of the long-term solution = instruction and education in the Japanese culture and Japanese language.

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Like a dazed and bleeding prizefighter trying to call time out in the middle of a round, America's automakers have been pleading for months for relief from the pummeling they have been taking from Japan. While sales of American-made cars have been slumping, Japanese-made Datsuns and Toyotas, Mazdas and Hondas have been streaming through U.S. ports at the rate of some 6,000 vehicles a day. The import flood has given Japan 23% of the entire U.S. car market. General Motors Chairman Roger Smith last week urged a "short-term voluntary" cutback in imports and warned that the alternative was a trade war with Japan. In Washington and Tokyo the Reagan Administration and the government of Prime Minister Zenko Suzuki worked determinedly to settle the most festering trade issue the two countries have faced since World War II.

During the 1980 presidential campaign, Reagan assured autoworkers that he would give relief from the onslaught. But the Administration is now deeply split over the question. Free traders, including Budget Director David Stockman, have argued with a protectionist-minded group headed by Transportation Secretary Drew Lewis over whether to press Japan to restrain imports "voluntarily." Attorney General William French Smith added to the confusion last week by releasing a memo arguing that any such deal would violate U.S. antitrust rules. The Cabinet last Thursday discussed a report that presented options ranging from legal limits on Japanese auto imports to no action at all, but it reached no decision.

Meanwhile in Japan, the Suzuki government tried to pressure its auto companies to restrain exports. Foreign Minister Masayoshi Ito said that he was "determined" to keep the issue from developing into a more serious political one. The Japanese fear that the auto confrontation will upset Prime Minister Suzuki's visit to Washington in early May. As an advance man for that visit and a conciliator on the auto problem, former Prime Minister Takeo Fukuda traveled to Washington last week and met with President Reagan.

The Japanese car companies so far have been resisting all government pressure to hold down exports to the U.S. But Katsuji Kawamata, chairman of Nissan Motor Co., maker of Datsuns, hinted that they might accept some compromise in order to head off even tougher U.S. action. Said he: "We cannot continue to act as if we couldn't care less what is happening over there."

What is happening, of course, is the rapid deterioration of a major American industry. Detroit's automakers last year lost more than $4 billion, and during the past three years U.S. annual auto production has slumped by 30%, to 6 million vehicles. Today almost 200,000 American autoworkers are unemployed, and many of them have little hope of ever returning to work in their industry. To them and to most U.S. auto executives, the problem is Japanese imports. Since 1975, annual sales of Japanese cars in the U.S. have jumped from 800,000 to 1.9 million.

The trade issue has taken on such importance because of the auto industry's key role in the economy. One out of five American workers is employed either directly or indirectly in making, servicing or selling cars, and industries like steel, glass and rubber are heavily dependent upon automobile sales to keep their own plants operating. In addition, Detroit is of strategic significance, since General Motors, Ford and Chrysler also make war materiel for the Defense Department.

Detroit's problems have come to symbolize the ills of U.S. business in general. The saga of American cars in the past three years resembles the story of too many industries during the past decade. Television, textiles, steel, calculators, ship-building—American companies once dominated all those markets. But then U.S. executives watched almost helplessly as their customers were snatched away by industrious Japanese competitors selling better products at lower prices.

Both the advocates and the opponents of import restrictions admit that the ultimate solution for the troubles of the auto industry is for Detroit to build products that are better and cheaper than anything Japan has to offer. The question, in a word, is how.

Searching for answers to that query has become a growth industry. From Harvard Sociologist Ezra F. Vogel's 1979 treatise *Japan as Number One: Lessons for America*, to U.C.L.A. Management Professor William Ouchi's new *Theory Z: How American Business Can Meet the Japanese Challenge*, academics are telling the U.S. that the most dutiful student of its management practices is now the teacher.

Businessmen are getting the message. After years of smiling while armies of Japanese executives trooped through their offices to learn the secrets of U.S. industry, Americans are seeking a tip or two for themselves. Like pilgrims to the temple of success, they are traveling to an ancient land they can scarcely understand to learn how Japan does it. With a mixture of curiosity and envy they are asking: How has an overpopulated island country with less land than California leaped in only three decades from wartime defeat and the status of industrial sweatshop to that of high-technology dynamo? How has a country that imports 100% of its aluminum, 99.8% of its oil, 98.4% of its iron ore and 66.4% of its wood and lumber become a world economic power?

Gone are the days when Japan's achievements could be explained away by the litany of complaints that Western businessmen have been echoing since the early 1960s. No longer is Japan enjoying a competitive advantage from "modern" factories built in the early postwar years. True, new industrial facilities constructed on the ashes of bombed-out buildings gave Japan an advantage during the 1950s and early 1960s. But that was nearly 30 years ago. Japanese businesses in recent years have updated and improved their plants and factories and thus maintained their competitive advantage.

No longer does Japan win markets simply by holding down wages and exporting cheap products. Until the early 1960s, the country did have a low wage base, but today in Japan salaries are on a level with those of other leading industrial nations.

Critics are equally wrong when they charge that Japan succeeds only because it systematically blocks all competing foreign products from entering its domestic market. Such charges were undoubtedly true for at least a quarter century after World War II. The Japanese had a host of official and unofficial ways of holding down imports and promoting exports. Foreign businessmen faced high tariffs and found it difficult to market their goods through the country's very complicated distribution system. "Buy Japanese" was a strong, if unspoken, practice. American businessmen also accused the Japanese of "dumping," or selling their products at a loss just to expand their market shares. In 1979 the U.S. Treasury found that Japanese companies were, in fact, dumping color television sets. But the Japanese, under heavy pressure from the U.S., have generally ceased such practices and reduced their tariffs and import quotas.

Nor is there much to the argument that Japan is getting a "free ride" on the coattails of U.S. defense spending. For many years that was true. By relying on the U.S. to provide for its protection, Japan kept its armed forces small and saved billions of dollars annually in defense expenditures. The savings were spent on bolstering the growth of industry. But in the past decade Japan's defense establishment has grown to the eighth largest on earth. Indeed, U.S. arms manufacturers and aerospace firms are beginning to worry that Japan could eventually emerge as a major competitor in export markets that the U.S. has so far had almost to itself.

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'Made in America' Prestige Fades

U.S. Firms See Sales Drop and Ask 'Where Did We Go Wrong'

By DAVID A. GARVIN

As consumers turn increasingly to imported goods that offer better reliability, features or performance, product quality has become a hot topic in management circles. First automobiles, then semiconductors and now machine tools. Each has been battered by Japanese competitors offering a superior product. Many American companies have seen their market shares dwindle, prompting managers to ask how their quality could fall so far behind, and what must be done to improve?

Part of the answer is historical. The quality movement in this country has evolved through three distinct phases—as has Japanese quality management. However, the Japanese have progressed far more quickly to the most advanced stage.

First came the quality control movement, which focused on engineering and production problems. In product design, this led to an emphasis on reliability engineering; and in manufacturing, it led to an emphasis on statistical quality control. Both techniques were designed to weed out problems early; the former by analyzing a product's basic components (identifying those most likely to fail and then proposing more reliable designs) and the latter by employing statistical techniques to discover when machinery or equipment was operating outside acceptable limits.

Quality control soon gave way to quality assurance. The emphasis shifted from manufacturing and engineering to a more integrated approach. All functions, from purchasing to field service, were to play a role in providing quality products; the trick was to coordinate their activities to avoid slip-ups.

Even with this increased attention, both quality control and quality assurance remain defensive in tone. Quality was a problem to be solved rather than a competitive opportunity. The rise of the Japanese as global competitors introduced a new perspective. Quality could also be a powerful strategic weapon.

In market after market, the Japanese have demonstrated the appeal of reliable, defect-free products. Their automobiles require fewer repairs than American models, as do their color televisions. Japanese copying machines are now advertised on the same basis. For many American consumers, "made in Japan" has become a mark of distinction.

In using quality as a strategic weapon, Japanese manufacturers have progressed to the third stage of quality management. Quality improvements are continuously pursued, and perfection has become the ultimate goal. Failure rates are no longer measured in percentage terms; they're now recorded in parts per million. Consumers are regularly surveyed to determine their quality preferences, and products are redesigned accordingly.

By contrast, most Americans are mired in the earlier stages of quality control and assurance. For them, problem prevention is still the name of the game. Few have recognized what the Japanese see so clearly: that superior quality is inherently desirable because it also leads to improved productivity and lower manufacturing and service costs.

After all, Japanese companies are renowned for their high productivity and low costs, as well as for their superior quality. That these three variables move together should not be all that surprising. More reliable products mean that less time is spent fixing defective units and fewer repairmen and service technicians are required. Warranty claims are correspondingly lower, as are the costs of scrap. Simplified and easy-to-assemble designs require fewer workers at the same time that they contribute to fewer defects. Investments in machinery and equipment lead to more consistent production as well as to increases in worker productivity.

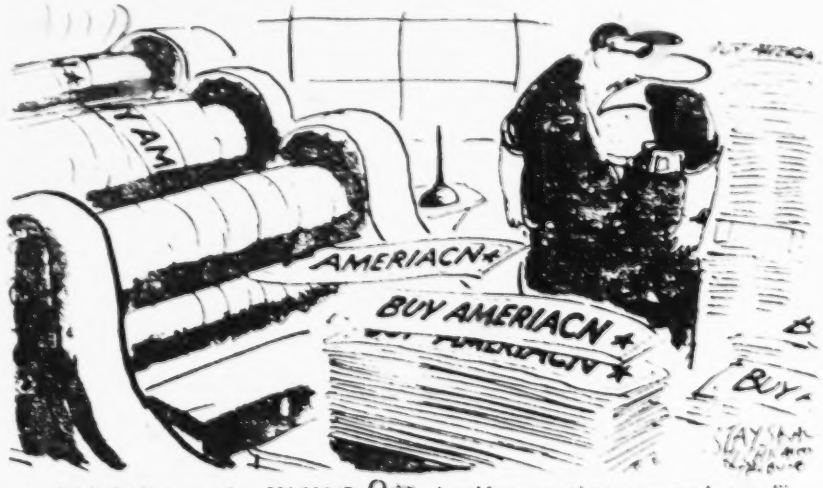
However, the Japanese advantage in quality cannot be attributed primarily to the use of more sophisticated manufacturing equipment. As Japanese managers are quick to point out, the drawback of automatic machines is that they are quite capable of automatically producing large numbers of defects. Machinery alone will not solve a company's quality problems. Before investing in new equipment, product designs must be improved, workers better trained, statistical controls put in place and higher-quality parts purchased from suppliers.

These efforts point to the real source of the Japanese quality advantage. Superior quality comes from doing the little things right. New suppliers are selected as much for the quality of their components as for their price and delivery performance. Designers work closely with manufacturing experts to ensure that new models are as easy for workers to assemble as they are for consumers to use. Workers contribute suggestions on how the production process can be simplified and defects eliminated. Extensive data are collected on product performance and consumer preferences. Early warning systems ensure that unanticipated quality problems are quickly located and resolved.

There is no magic to the Japanese approach, nor is there much the Japanese manufacturers are doing that would not be equally effective here. We already have several notable success stories here.

More than anything else, superior product quality reflects the attitudes and commitment of upper management. Workers will generally respond to the signals they receive from above. If American managers continue to view quality as a problem to be solved rather than as a competitive opportunity, little will change. But if they take the long view, and begin reshaping their organizations to make quality a top priority, the Japanese advantage would soon disappear.

David A. Garvin is assistant professor of business administration at the Harvard Business School.



"Tell the boss another 500,000 'Buy American' bumper stickers are ready to go!"

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Los Angeles Times

November 10, 1983 ★

Reagan Warns Tokyo on Trade

Calls U.S.-Japanese Relationship Vital to World Peace, Prosperity

By GEORGE SKELTON and SAM JAMESON, *Times Staff Writers*

TOKYO—President Reagan bluntly told Prime Minister Yasuhiro Nakasone on Wednesday that unless U.S.-Japanese trade differences are resolved, relations between the two allies could be seriously affected.

The admonition came while Reagan also was telling the prime minister during a private meeting, according to a U.S. official, that "no relationship between any two countries is more important to world peace and prosperity than the relationship between the United States and Japan."

It was the first time that any American President has made such a sweeping statement about the Washington-Tokyo alliance. And aides close to Reagan emphasized that he was not just using hyperbole but was speaking with absolute sincerity, believing that global stability increasingly hinges on a close partnership—economic and military—between the two World War II enemies, whose gross national products rank first and second among non-Communist nations.

'A More Reliable Ally'

"Japan has become a more reliable ally than our European friends," said one White House official who asked not to be identified.

But Reagan cautioned on the first day of a six-day trip to East Asia that this close partnership is being threatened by a growing demand within the United States—particularly from organized labor—for legislative protection from Japanese exports.

The House of Representatives, for example, last week passed a "domestic content" bill requiring that automobiles sold within the United States be built primarily with U.S. labor and parts. American producers, meanwhile, have been complaining that Japanese markets for U.S. goods are too restricted.

With the United States expected to suffer a $20-billion trade deficit with Japan this year, American business and labor complaints involve dealings across a spectrum ranging from beef and citrus to communications satellites.

U.S. and Japanese officials said Reagan did not present Nakasone with an item-by-item listing of disputed trade issues. But he did tell the prime minister, according to one White House official, "I want to make sure you understand how serious these things are."

This official characterized Reagan's mood in the private session as "firm and businesslike" while striving to maintain the "very, very good personal relationship" between the two leaders.

Emphasis on Progress

Another Administration official said Reagan "put an emphasis on the importance of making progress on these issues, both because of their economic impact and also because of the effect that failure to solve them would have on our political relationship."

The private meetings between the two leaders, which continued early today, represented only one facet of the President's four-day visit to Japan. (He flies to South Korea on Saturday.)

The underlying purpose of the visit here—and the reason that Nakasone invited him—is to enable Reagan to sell himself personally to the Japanese people. If he succeeds, it would make it easier for the President to sell his policies and programs to the Japanese government and make it more politically acceptable for Nakasone to cozy up to the U.S. leader, whom many Japanese regard as too militaristic.

"He's going to get a lot of exposure on Japanese television to show his warmth and personality."

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White House official said.

A good example was the arrival ceremony for Reagan here at the Akasaka Detached Palace, a massive granite structure modeled after the Palace of Versailles.

The carefully orchestrated event was a television producer's dream, with the President and 82-year-old Emperor Hirohito walking along a red carpet through a cobblestoned courtyard, inspecting an honor guard and waving to specially invited school children wearing yellow hats. The two also waved to U.S. military personnel and their families holding American and Japanese flags in the breeze.

There probably were more members of the news media there than everyone else combined, and it was designed that way to assure the widest possible coverage of the colorful affair.

Reagan's visit prompted protests Wednesday by an estimated 4,200 demonstrators at seven locations throughout Japan, but this was significantly tamer than previous anti-U.S. protests here.

Today at the Meiji shrine, where Reagan watched colorfully garbed Japanese archers on horseback shoot arrows at three separate targets—another made-for-TV event—20 students wearing red and blue skull masks staged a sitdown protest at the monument entrance. Police ultimately hauled them away.

Later today, at a luncheon given by Nakasone after their second round of talks, Reagan set aside the trade controversy and declared that the two nations are leading the world into a new era of high technology.

In his Wednesday talk with Nakasone, Reagan focused heavily on the complex yen-dollar exchange rate, which the U.S. government views "as the single, principle cause of the trade imbalance" with Japan, an Administration official said.

Reagan and Nakasone are expected to announce today that a bilateral task force will be created to try to work out U.S.-Japan differences over the yen-dollar rate, which is now roughly 235 yen to one dollar.

Treasury Secretary Donald T. Regan, during an interview in Washington with Japanese newsmen that was timed to coincide with the President's trip, described the exchange rate as "a time bomb" for the two nations. He pointed out that if the yen is weak in relation to the dollar, prices of American goods sold in Japan are driven higher while the price of Japanese products sold in the United States is cut.

Nakasone told Reagan that the chief cause of the dilemma—a strong dollar and weak yen—is high U.S. interest rates that attract foreign capital to the United States.

And the Japanese prime minister brought up a complaint of his own—against the growing trend among states to enact California-style "unitary tax" laws under which Japanese corporations are taxed on a percentage of their global earnings even if their local operations are in the red. He complained that the unitary tax is impeding Japanese investment in the United States in manufacturing operations that create jobs for Americans.

Reagan, however, promised only to continue studies of the issue.

The prime minister suggested, for the first time, that preparations for a new round of international trade negotiations be started. Such negotiations, he said, should go beyond trade in conventional products to deal with issues involving service industries, high technology, commerce between developing and advanced nations and agriculture.

Reagan expressed his support for the idea, Japanese officials said.

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Japan Market More Open Than U.S. Thinks

By YOSHIFUMI MATSUDA

It is sometimes said that the Japanese market is closed to imports of American products. However, a look at some interesting facts show such comments are quite untrue.

—In a comparison of average tariff rates, Japan's rate is 3.2%, while the rate of the European Community is 5.5% and that of the United States is 5.9%.

—Measuring the value of U.S.-Japan trade on a per-capita basis, each Japanese in 1982 bought $215 worth of U.S. goods, while each American purchased $170 worth of Japanese goods—an advantage of more than 20% for American goods.

Understandably, however, the issue of open or closed markets tends to relate more to non-tariff barriers than to duties as such. While those barriers that can be modified by the Japanese government have largely been corrected (or are in the process of correction), what Americans seem to find most difficult to understand are the so-called "non-tariff barriers" of the social customs and culture of Japan. The Japanese language is one of the greatest of these.

Some say that Japan is unnecessarily meticulous and restrictive on certain measures—for example, on automobile safety and pollution controls. But Japan's auto emission regulations are the world's strictest because Japan is very vulnerable to air pollution, and the Japanese are militant anti-pollutionists. Regulations are applied equally to domestic and imported vehicles.

Yet many American firms are coping with these "non-tariff barriers" and, after careful study of the Japanese market, have entered it profitably. Not only are fast-food chains, such as McDonalds, and American soft drinks found throughout Japan, but products from Schick, Procter & Gamble, Kodak, IBM, Corning Glass, Xerox, Caterpillar and Johnson & Johnson have large and profitable shares of the market.

Despite the realities of the open Japanese market, we must face the bilateral trade imbalance, estimated to reach $20 billion this year. But since trade is global, trade balances need to be considered on a multilateral basis rather than in a two-country comparison. Japan does have favorable trade balances with some countries (including the United States) and deficits with other countries, such as oil and natural resource suppliers. The United States also has a trade surplus with other countries (such as the European Community) and deficits with Japan and others.

Still, the Japanese government is determined to continue its efforts to reduce the imbalance with America. A positive approach to the issue is essential, and we believe the proper solution is to be found in an expansion of exports of American goods to Japan, as opposed to a reduction in Japanese exports to the United States.

Information from Japan's Ministry of Finance shows that in the first half of 1983, U.S. exports of machinery and equipment to Japan increased nearly 12%. That figure comes at a time when U.S. exports are supposed to be more difficult because of the high value of the dollar. With a more positive, rather than protectionist, approach, we can expect the trend to continue.

However, there do remain some restrictions on the import of farm products in Japan. Most cultures consider farming and farm life to be part of their heritage—naturally different from the commerce and industry that have sprung from its foundations. So, even if Japan's farmers are not as efficient or profitable as they might be, we cannot judge our agriculture in cold economic terms alone.

The United States may recognize those fundamental realities, too, in its own protective agricultural policies—with restrictions on dairy products, refined sugar, citrus products, beef and so forth. Even so, Japan is the biggest single customer for U.S. farm products: Our 1981 imports amount to $6.6 billion, and a quarter of our total food supply is from the United States. Japan does not intend to prohibit further entry of agricultural products; rather, we are prepared to *increase* agricultural imports from the United States. Such increases, however, should be gradual rather than precipitous.

Open and competitive trade in goods and services is our common goal. The world expects responsible leadership from our two countries. To provide such leadership, it is essential that an effort be made to work in harmony. Our markets must be made as unrestricted as possible, and we must make every effort to understand the character and nature of one another's markets in order to avoid misunderstanding.

The Japanese market is far more open than many Americans imagine, and it is beckoning to American manufacturers and exporters to come and join in the free competition.

Yoshifumi Matsuda is the Japanese consul general in Los Angeles.

Los Angeles Times
September 26, 1983

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Los Angeles Times ★ Sunday, September 18, 1983

U.S. Firms Find Japan Trade Barriers Can Be Climbed or Sidestepped

By TOM REDBURN, *Times Staff Writer*

TOKYO—In a maze of streets and alleys surrounding the Akihabara train station here, thousands of electronic shops compete side-by-side to offer the latest stereo equipment, video-cassette players, cameras and personal computers, attempting to lure customers from the milling hordes of people with a nonstop cacophony of sales talk, loud music and price haggling. Amid this bazaar of Japanese electronic technology, though, one store stands out from the crowd with—of all things—an American product, blasting passers-by with pop music played through massive JBL speakers on the sidewalk.

In fact, JBL has a major stake in the Japanese market for high-fidelity speakers, capturing about 15% of the high-quality segment of speakers in Japan and receiving about 20% of its worldwide revenues from Japan.

Work Is the Key

"It's not easy to be successful in Japan, since you are competing against some of the best manufacturers in the world," says Jerry Kalov, president of Northridge-based Harman International Industries Inc., which makes JBL speakers. "But with the right product, any U.S. firms can penetrate the Japanese market, if they are willing to work at it."

It may come as a surprise to many Americans, but despite the well-publicized persistence in Japan of protectionist barriers, informal controls and opposition to foreign products, hundreds of U.S. firms have entered the Japanese market successfully, and more than 5,000 American companies have at least some exports to Japan. The United States exported about $21 billion worth of goods to Japan last year, an average of about $200 per Japanese.

In return, the United States imported about $40 billion in Japanese products, causing the U.S. trade deficit with Japan to swell to about $19 billion in 1982. Yet, the average American actually spent only about $185 on Japanese products, less than the per-capita consumption of American goods in Japan.

Even after subtracting Japan's large purchase of American farm goods and natural resources, which last year amounted to slightly more than $9 billion, the average Japanese still spent about $123 on manufactured U.S. products in 1982. That is less than the American per-capita spending on Japanese imports, which largely consist of manufactured goods, but much more than the massive trade imbalance would suggest.

The largely hidden access to the Japanese market by U.S. firms, however, stands in sharp contrast to the far more visible penetration of Japanese products in the United States. Not only have Japanese automobiles captured about one-quarter of the U.S. market, but Japanese firms have come to dominate such important consumer product lines as 35-millimeter cameras, color television sets, motorcycles, stereo equipment and videotape recorders.

In Japan, on the other hand, U.S. products, while widespread, rarely have achieved more than a tiny share of their market. In only a few cases, such as commercial aircraft and some raw materials, have imported American goods held sway over domestic Japanese markets.

What accounts for these differences? Is the United States an open market, while Japan remains largely protectionist, or is the unequal trade balance between the two nations the result of other factors?

As the numbers above demonstrate, the evidence is full of contradictions. If the average Japanese is buying as much from the United States as the average American is buying from Japan, the problem simply may be that the U.S. popula-

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tion and economy are about twice as large as Japan's. But the fact that Japanese goods have overwhelmed fields that U.S. industries once dominated, while Japan's producers remain largely immune to such pressures from other major industrial nations, suggests that the issue merits closer examination.

For years, government barriers made it nearly impossible for foreign companies to enter Japan. Except for a handful of firms that got into Japan just after World War II, such as Coca-Cola Co., General Foods Corp. and Max Factor Co., or those like International Business Machines Corp. and Texas Instruments Inc. that held patents desperately needed by Japanese industry, few foreign companies succeeded in overcoming the official hurdles. Protected behind a wall of high tariffs and restrictive quotas, Japanese industries were nurtured to prosperity in a hot-house economic environment that encouraged rapid growth at all costs.

Legacy of Suspicion

This protectionist era, on top of a 250-year history of isolation from the outside world, has left Japan with a legacy of suspicion against all *gaijin*, or foreigners. Says Ezra Vogel, author of "Japan as No. 1" and a noted U.S. expert on the country, "Japan is not a closed market, but it is almost a closed society."

But despite the continued existence of *sakoku ishiki*—closed country consciousness—Japan has steadily reduced its obstacles to imports in the last few years, opening its markets to a wide range of foreign goods. Although Japanese claims that U.S. companies are now welcomed with "open arms" seem wildly exaggerated, the major accomplishments of dozens of American firms demonstrate that Japan is more open to imports than is generally realized abroad.

American Express Co., for instance, has signed up nearly 100,000 customers in Japan for its prestigious Gold Card by cleverly capitalizing on the uncertainty Japanese face when they travel abroad. Avon Co., which has stagnated in the United States in recent years, has more than 160,000 Japanese "Avon ladies" knocking on doors in a country where most married women still stay home during the day. And CBS Inc., through a 50-50 joint venture with Sony Corp., has become the largest seller in Japan of phonograph records and prerecorded cassettes.

In recent years, Japanese companies have grown increasingly uncompetitive in such basic industrial products as aluminum, chemicals, textiles and clothing, which has spurred a dramatic increase in imports. Unlike every other major industrial nation, Japan has imposed relatively few restrictions on textile imports, traditionally the first industry developing nations enter on the ladder of economic development.

Receptivity to Imports

"Japan's growing receptivity to imports (of certain types of manufactured goods) has been the product not so much of idealism as of industrial organization," says Kent Calder, a Japanese specialist at Harvard University. "Distributors, in the form of the general trading companies, have a primary stake in trade flows rather than production. Through the industrial group structure, they are able to moderate the protectionist impulses of domestic producers and to aid them in diversifying into overseas production."

These industrial changes, together with pressure from foreign governments, have forced the Japanese government to gradually dismantle a wide variety of informal barriers, such as arbitrary product standards, endless safety testing, and a maze of bureaucratic rules that foreigners unable to speak or read Japanese find difficult to fathom, much less follow.

"In most cases, trade barriers are no longer the real issue, since a determined company can always find a way around them," says Warren Hegg, president of the Tokyo office of Menlo Park-based SRI International, a worldwide research and consulting firm. "The real issue is whether U.S. firms can compete in Japan on the basis of quality, price and performance."

At the same time, however, Japan has continued to control the flow of politically sensitive imports, such as cigarettes, beef and citrus fruits, while such strategically important industries as computers and telecommunications are still largely limited to domestic producers.

To get into the Japanese market, many American firms have learned to overcome the existing obstacles by recruiting Japanese partners or even enlisting the direct help of Japanese government leaders. To break into the distribution system, a complex web of middlemen who are bound together by years of intimate business dealings, invariably requires that, as one government official put it, "You've got to learn the language and drink *sake* in nightclubs for three or four years. Can you find many American executives delighted to do that?"

JBL, for instance, has relied on Sansui Electric Co. as its distributor in Japan since 1965. Until then, JBL's approach to Japan was limited primarily to selling its speakers to U.S. soldiers based there, since few Japanese before then could afford expensive stereo equipment anyway. Sansui, which makes mass-market stereo equipment, approached JBL about distributing its high-quality speakers because it wanted a prestigious line to market along with its own less-sophisticated products.

Although JBL's executives are knowledgeable about the requirements of the Japanese market, they depend on Sansui to handle the actual selling of their speakers. "We are responsible for the entire importing process, from issuing a letter of credit to providing advertising and support for dealers," says Susumu Takahashi, manager of Sansui's import department. "The JBL products are the same as those sold in the United States, but we need to take a different approach with the Japanese consumer."

"JBL once had a foreign subsidiary but it failed," says Harman International's Kalov. "Over the years, we've developed a bond with Sansui that is inseparable. Even though the market has slumped in the past few years, it would never occur to us to change that relationship."

Japanese exporters, by contrast, are more likely to establish their own distribution and sales network in the United States, in part because they are larger and more diversified. Nippon Gakki Co., for example, began as a maker of musical instruments in Japan almost a 100 years ago and it is associated with firms that now sell Yamaha products throughout the world. When Yamaha decided to branch out into stereo equipment about a decade ago, it already had a subsidiary in the United States, based in Buena Park, so it was relatively simple to add another distribution unit. Yamaha now sells high-quality stereo equipment in both the United States and Japan, along with a line of speakers that competes against JBL and other American makers.

"We certainly have no problems bringing a Japanese product into the United States," says Donald Palmquist, executive vice president of Yamaha Electronics Corp., USA. "Our difficulty is that we are competing in a mature market where there is fierce competition. No one firm has more than an 8% share of the market in speakers but the U.S. companies continue to dominate."

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Superficial Differences

The differences in approach to exporting, however, are not as great as they seem on the surface. Neither firm has any complaints about official barriers to exports. Both JBL and Yamaha rely on natives almost exclusively in their foreign operations; planning is closely coordinated between Sansui and JBL just as it is between the U.S. Yamaha unit and its Japanese parent.

Both firms face similar costs in transportation, local distribution and tariffs. While Japan imposes a 15% tax on the wholesale price of stereo equipment, it actually costs local producers more than importers, since the tax is based on the producer's price. This includes a distribution cost for Japanese firms that is not added in to JBL's costs until after the tax is paid.

And both Yamaha in the United States and Sansui in Japan express similar gripes that their proposals for particular products expressly suited for their own markets are occasionally ignored.

Sansui, for instance, says its advice to JBL to make its rear-stereo speakers smaller to fit Japanese automobiles has been ignored.

"We're advising JBL to avoid repeating the auto story," says Takahashi. "Japanese used to think foreign cars were good but now they believe Japanese cars are the best quality. We're telling JBL to develop new high-quality products or they won't be able to sell in Japan in the long run."

Competition has intensified between Japanese and American firms in several industries, but U.S. companies are adopting more aggressive strategies in order to hold their own and to go after Japanese companies on their own turf. Fuji Photo Film Co., for instance, has managed to grab a small toehold in the U.S. color-film market in the past few years, making inroads into an industry that once was a virtual monopoly of Eastman Kodak Co.

To break into the United States, Fuji has focused on market niches where it equals or surpasses Kodak's quality, and has managed to gain a 6% share of the color-film market. In Japan, it has held on to about a 70% share of the market.

But Kodak, annoyed particularly at Fuji's higher bid for selection as the official film of the 1984 Olympics, has struck back by lowering its prices in Japan, which has enabled it to expand its market share to more than 10%. The effort is designed to force Fuji to match the price-cutting and narrow its domestic profit margins. Whether or not the strategy forces Fuji to meet the price competition, it suggests a new-found aggressiveness on the part of Kodak. In other actions designed to ward off the growing competition, Kodak has branched out into the production of high-speed copiers and the application of new electronics technology to its entire photo business.

Different Approach

In a different approach to meeting the challenge of Japanese competition, Xerox has used its long-standing joint venture with Fuji to develop a low-cost copier. Fuji Xerox was able to reverse the market-share losses it was experiencing in the early 1970s by developing a copier equal to the competition from Ricoh and Canon. Xerox, whose world market share had slipped to less than 25% in 1976, regained its lead two years later and, despite continued problems, has remained on top of the industry with nearly a 35% share.

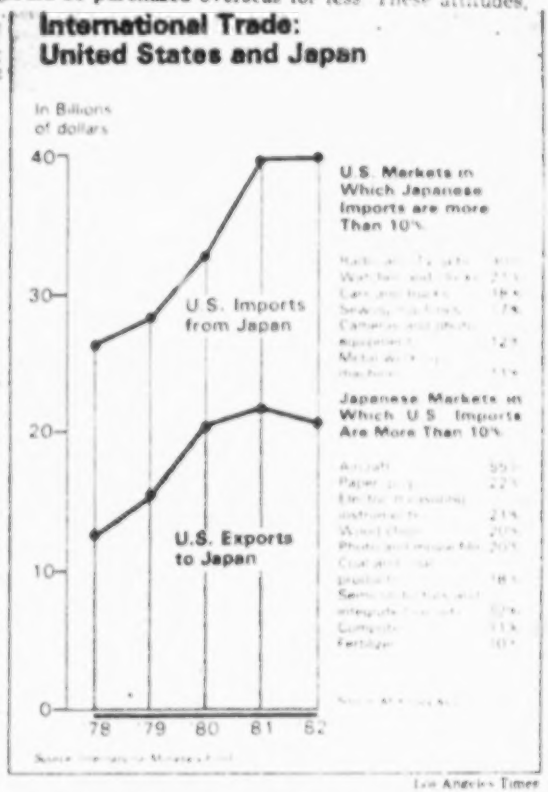
Above all, what it takes to succeed in Japan, according to a recent book-length study by the consulting firm, McKinsey & Co., is a combination of new ideas and staying power. Yet, many American firms, the report says, do little to adapt to the peculiarities of the Japanese market, nor do they structure their operations to take into account the Japanese market's huge size and complexity, often treating it as simply another faraway Asian outpost.

"Business relationships frequently are measured in length of time; negotiations are conducted without legal contracts; agreements are 'modifiable' as circumstances change; discriminatory rebates are acceptable," notes the book, titled "Japan Business: Obstacles and Opportunities." "All of (this) makes doing business in Japan different and demanding—but hardly 'protected' or prohibitive."

Slow Acceptance

But Japan's relatively recent history of overt protectionism, along with the remaining tariffs on some strongly competitive foreign products, still contributes to a slow acceptance of foreign goods, according to Dan Napier, an analyst of the Japanese economy at [illegible] Resources Inc. in Lexington, Mass.

"From the end of World War II through the late 1960s, Japan faced chronic trade-balance problems," Napier says. "In order to make sure that the growth rate of the economy was maximized, the government enacted a series of trade measures designed to eliminate any unnecessary imports, regardless of whether they could be purchased overseas for less. These attitudes,



that Japan must export to survive and that 'buy Japanese' policies were necessary [illegible] became ingrained in the thinking of petty bureaucrats, trading-company managers and the like, and plague current efforts to open the Japanese market."

As recently as 1982, former Prime Minister Zenko Suzuki felt it necessary to issue a nationwide appeal urging more purchases of imported goods while current efforts to open Japan to greater quantities of imported food face major opposition from the politically powerful farm lobby.

Despite the remaining obstacles, though, many U.S. companies really don't have any choice about whether to compete in Japan. For example, Orangeburg, N.Y.-based Materials Research Corp., a manufacturer of semiconductor production equipment, is building a factory on the island of Kyushu. Says its president, Sheldon Weinig: "We're in Japan because what's happening there is as important to our business as what is happening in the United States. Unless our high tech industries can keep up with the Japanese on their own turf, they are going to beat the (expletive deleted) out of us at home."

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INTERNATIONAL HERALD TRIBUNE, WEDNESDAY, OCTOBER 12, 1983

Japan Trade Surplus Rises to Record

The Associated Press

TOKYO — Japan's trade surplus rose 5.1 percent to a record $12.63 billion in the first half of the year ended Sept. 30, the Finance Ministry said Tuesday.

The gain was led by brisk exports to the United States and Western Europe, the ministry said.

Exports in the fiscal first half rose 5.1 percent from a year earlier to $73.2 billion while imports declined 5.7 percent to $60.57 billion, the ministry said.

The previous record of $9.93 billion for the fiscal first half came in 1978.

A ministry spokesman said exports of motor vehicles, computers and videotape recorders, chiefly to the United States, increased, but imports of crude oil declined because of price rises.

Japan's total exports to the United States in the half increased 15.3 percent from a year earlier, to $21.5 billion, and imports rose 0.4 percent, to $12.45 billion, leaving a record trade surplus with the United States of $9.05 billion.

Exports to Western Europe rose 5.3 percent, to $11.16 billion, and exports increased 14.7 percent, to $5.6 billion, leaving a surplus of 5.56 billion, it said.

Japan's exports to Southeast Asian countries increased 9.8 percent, to $17.37 billion, and imports declined 10.8 percent, to $13.15 billion, leaving a $4.22-billion surplus, the ministry said.

Exports of computers and semiconductors during the period rose by 69.4 percent and 37.5 percent, respectively, to reach $2.56 billion and $1.85 billion. Videotape-recorder and motor-vehicle exports climbed 20.6 percent and 4.4 percent to $2.65 billion and $12.93 billion, respectively, the ministry said.

Exports of computers soared more than 69 percent, to $2.56 billion, while shipments of semiconductors increased 37.5 percent, to $1.85 billion. Exports of videotape recorders rose more than 20 percent, to $2.65 billion, and motor-vehicle shipments climbed 4.4 percent, to $12.93 billion.

Of total Japanese exports, the ministry said, the United States absorbed $1.33 billion of computers, up 95.6 percent, $579 million of semiconductors, up 45.3 percent, $973 million of VTRs, up 75.1 percent, and $6.47 billion of motor vehicles, up 12.4 percent, the ministry said.

Japan's aircraft imports during the period climbed 124.6 percent to $914 million as the country's civilian airlines bought 10 jetliners, it said.

Of the Japanese aircraft imports, the ministry said, the United States captured $758 million, up more than 112 percent. Feed-grain imports from the United States were up 11.6 percent, to $753 million, it said.

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Gov't Urged To Solve Trade Tiffs With US

MAINICHI DAILY NEWS

OCTOBER 16, 1983

Japanese Ambassador to the United States Yoshio Okawara Monday urged the Japanese government to review Japan-U.S. trade frictions and find ways of solving the problems before U.S. President Ronald Reagan's official visit to Japan next month.

He made the recommendation when he met Foreign Minister Shintaro Abe to brief him on the latest U.S. situation concerning the bilateral frictions over beef, citrus and other products.

American voices criticizing the trade frictions are growing louder because there is no sign of correcting the trade imbalance, although the U.S. side has appreciated a series of market opening measures the Tokyo government has so far taken, the ambassador said.

Okawara briefed the foreign minister about the results of his latest meetings with officials of the White House, Trade Representative's Office and other U.S. government offices and congress leaders, ministry officials said.

The U.S. is demanding a Japanese compromise across a wide range of trade friction issues, including Japan's voluntary restrictions on auto exports, more procurement from the U.S. by the Nippon Telegraph and Telephone Public Corp., Japan's purchase of U.S.-made satellites, correction of the general trade imbalance and the solution of the yen-dollar problem, Okawara reported to Abe.

So far, he has explained to the Americans that these trade issues are all very difficult political problems in Japan as well as in the U.S., the ambassador told Abe.

But the U.S. dissatisfaction has been increasing so much that this explanation by Japan may not convince the Americans, Okawara said.

If these trade problems drag on, Japan-U.S. relations would be adversely affected, the ambassador told the foreign minister.

Japan To Restrain US Steel Exports

Japanese steel mills have agreed to apply self-restraint on rolled steel shipments to the United States beginning next year, industry sources said Tuesday.

The sources said that marketing officials of major steel makers who met behind closed doors Tuesday agreed on the need "to be prudent about U.S. exports" to avoid provoking the American steel industry now suffering from increased imports.

Japanese steel executives have apparently judged it wiser to take such action before U.S. President Ronald Reagan's scheduled trip to Japan next month, the sources added.

Japan last year exported 4.15 million tons of rolled steel to the United States, 33 percent less than the previous year. The downtrend has continued this year, with January-August shipments down 13 percent at 2.56 million tons.

But exports began recovering with September shipments registering a 17 percent increase from a year before.

The sources said that the proposed voluntary curbs will apply to shipments to be made after next January, since virtually all contracts for rolled steel to be shipped before the year's end have already been signed.

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The Japan Times Thursday, October 6, 1983

THE DAILY YOMIURI TOKYO October 20, 1983

Detroit Again Warns Of Japanese Threat

DETROIT (AP)—The combination of a weak yen and a strong, government-subsidized Japanese auto industry threaten to torpedo the American small car industry, American Motors Corp. Chairman Paul Tippett said Tuesday.

"If voluntary restraints are hiked to a level higher than 1.68 milion as the Japanese have been suggesting, and if the Japanese retain the advantage of an artificially weak yen, they could be taking 60 percent of our small-car market and a lot more American jobs," Tippett said in remarks prepared for delivery to a Washington seminar and released in Detroit.

Japanese carmakers, who already have 50 percent of the American small-car market, receive government rebates for every car exported, pay fewer domestic taxes and are subjected to only $250 per car in U.S. duties, Tippett said.

An American car sold in Japan does not qualify for government rebates, and is taxed $1,650 by the Japanese, he said, while an American car sold in the U.S. is taxed $1,550.

Those factors have helped boost the Japanese auto industry to levels it could not have reached in fair competition, Tippett said.

"If as some analysts suggest, Toyota and Nissan are earning 70 percent of their pre-tax income here while at the same time requesting higher import levels, just how much more profit do they want to suck out of the United States?" he said.

Imports Preferred

DETROIT (AP)—A new marketing survey indicates Americans are more satisfied with foreign than U.S.-made cars, particularly Germany's Mercedes-Benz and Japan's Toyota, Honda and Subaru.

J.D. Power and Associates, which released the survey Monday, also said foreign car companies have widened their lead over domestic automakers in customers' ratings of dependability and need for repairs.

The company conducts an annual survey of 5,000 buyers 12 to 14 months after purchase, so the latest results are for new 1982 cars, the company's Power Newsletter said.

The firm uses 100 as an average score on its Consumer Satisfaction Index, according to the newsletter, which was released in Detroit.

Mercedes-Benz led the pack for the second consecutive year with a rating of 159 points, 22 higher than runner-up Toyota, at 137. Subaru moved into third place at 135, replacing Honda, which fell to fourth with 118 points.

Last year's Consumer Satisfaction Index of 1981 models listed no major U.S. automaker above the average score of 100. But this year for the first time, the Ford and Lincoln-Mercury divisions of Ford Motor Co. were rated above average.

Japan-U.S. Auto Trade

International Trade and Industry Minister Sosuke Uno has dropped broad hints lately that Japan would continue to limit its auto exports to the United States after next March, but at a level higher than the present 1.68 million cars a year ceiling.

But he leaves the key question largely unanswered. Why do we have to keep the lid on our car sales to America? The current "voluntary" restraint, imposed in April 1981, is based on a three-year quota schedule worked out by the Ministry of International Trade and Industry (MITI).

There are some strong reasons to resist a continuation of the restrictions. First, the major American automakers are staging a dramatic comeback. Ford, for example, is said to have chalked up an after-tax profit greater than the combined profit of Toyota and Nissan. If they are doing so well, why do they have to protect themselves from import competition?

Second, although the export limitation has had at least some of the intended effect — giving Detroit a "breathing spell" to get back on its feet, it has also hurt the interests of American consumers. With fewer Japanese cars available on the U.S. market, their prices have gone up, and so too have the prices of American models.

Third, the export restraint, voluntary or not, runs counter to open trade. Recession has increased protectionist pressures in industrial nations, leading them to conclude a variety of bilateral trade-restrictive agreements outside the framework of the General Agreement on Tariffs and Trade (GATT). Already some 40 percent of Japan's industrial exports to America is said to be restricted in one way or another. This trend toward "managed" trade — protectionism in disguise — must be halted.

The grim fact is that the auto trade issue is as much political as economic. Protectionist cries continue to be heard in the U.S. auto industry as unemployment there remains at a high level. The American carmakers are concerned that competitive Japanese cars might flood the domestic market once the curb is lifted, at a time when they are getting back on the recovery road.

Now is the season of politics in America. The current quota expires at the end of March, when preparations for the U.S. presidential election will be going into high gear. That is not an opportune time to remove the brakes. Such a move could cause a protectionist backlash and encourage the Congress to pass "domestic content" legislation.

Moreover, Japan-U.S. trade relations are "politicized" by Japan's very large trade surplus in trade with the United States, estimated at about $20 billion or more for this year. The surplus is viewed by many Americans as a symbol of "unfairness" in the bilateral trade. They feel that Japan is not giving American goods as much market access as its own goods enjoy on the U.S. market.

It is not hard to imagine what would happen if auto exports were to be given a free rein. Moves to hold back the inflow of Japanese industrial products, not just cars, could escalate. At the same time, pressures for Japan to open up its domestic markets, including the farm market, could reach a dangerous pitch. The upshot would be a visible worsening of the bilateral relations, with serious implications for international trade.

The only realistic solution is to extend the curb. Given the improved performance of the U.S. auto manufacturers, however, it stands to reason that the new quota should be higher than the present level. It also should take into account, as Mr. Uno said the other day, the plans of some Japanese makers to supply their cars to General Motors and the difficulties of the domestic producers who accepted three years of restraint.

A relaxation of the existing restrictions, however, is only a step toward liberal auto trade, not a permanent settlement. Realism is essential in dealing with the extension question, but it must not be allowed to blur the fundamental: a car export quota, whatever its contents, is only a temporary measure and an exception to the rule.

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Mainichi Daily News

Tokyo

OCTOBER 12, 1983

Senators Seek Cuts In Japanese Autos

WASHINGTON (Kyodo) – The bipartisan group of 12 U.S. senators from nine states where autos are manufactured Monday urged President Ronald Reagan to seek lower Japanese car exports to the United States beyond next March when a current Japanese auto export restraint agreement expires.

The group, led by Sen. Carl Levin, Democrat-Michigan, sent a letter to President Reagan requesting a two-year extension of the agreement and a 7 percent reduction in the Japanese car exports from the present 1.68 million units annually to 1.57 million.

They asked Reagan to seek an extension of the voluntary restraints "for at least two years, at a level consistent with the market shares enjoyed by Japanese automakers when the agreement was originally reached."

To do this, Japan would have to export about 112,500 fewer cars to the U.S. annually as Japan's share of the U.S. car market rose from 16.6 percent in 1979 to 22.8 percent in 1982.

"It is imperative that the Japanese government know of your strong commitment to see that the U.S. auto industry is able to continue its effort toward renewed economic health and an improved competitive position in the domestic market," the letter said.

After five years of declining U.S. car sales, "sales are returning" but the slump caused "deterioration in the financial condition of the industry, despite the all-out efforts of management, labor suppliers and dealers to reduce costs and improve productivity while containing price increases," it added.

OCTOBER 14, 1983

Toyota-GM Venture Approval Seen Soon

NAGOYA – The U.S. Federal Trade Commission (FTC) may authorize Toyota Motor Corp. and General Motors Corp. (GM) late in October to go ahead with their plan to produce small cars jointly in the United States, a senior Toyota official said Tuesday.

Toyota Vice Chairman Shigetobu Yamamoto denied a New York Times report that the top Japanese automaker is reluctant to submit additional data sought by the FTC, thus casting doubt about the project.

"We remain as enthusiastic as ever toward the joint venture," Yamamoto said. "We have already placed orders for some of the production equipment in preparation for establishment of a joint venture company."

He said the FTC has not requested additional documents since extra data were first sought in the summer. "I think approval may be granted toward the end of this month."

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Los Angeles Times

Sunday, November 27, 1983

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James Flanigan

Cheap Yen Is Key Fuel for Japanese Car Companies

Maybe it's overexposure, but Lee Iacocca is becoming a bit of a bore. The hero of Chrysler's recovery suffered an attack of hyperbole recently in Washington and said that he was thinking seriously of "getting the hell out" of the small-car market, taking the $600 million that Chrysler had set aside for a new small-car project and using it to buy a bank instead.

Iacocca was using rhetoric to make a point, of course, criticizing an economy that allows greater returns to financial businesses than to hard-working manufacturing, while also taking a swipe at General Motors for its plans to import small cars from Japan rather than build them here.

Still, he sounded uncomfortably like all those other businessmen whom the American public has come to know as whiners and scolds—always threatening to leave town, or leave the country, unless they get some new tax concession or protection from competition.

What's really eating Iacocca? The fact that, for a complex of reasons that he feels the American people don't understand, his company may never be able to go ahead with a new small car. (He neglected to mention in Washington that Chrysler's board had voted two months before, in September, to shelve plans for the small-car project for at least a year.)

Money Lost on Escorts

The fundamental reason why is that U.S. car manufacturers cannot make money on small cars. Not even the largest selling automobile in the United States, the small, economical (starts at $5,629) Ford Escort, makes money. Ford sells about 325,000 Escorts a year and loses money on every one. The company has not announced any plans for a new economy model to follow the Escort.

In fact, only General Motors of the major U.S. car makers appears to be going ahead with plans for a new small car. GM announced on Nov. 3 that it would proceed with a $1-billion project to produce a new economy model sometime before the end of this decade. The company believes it can achieve breakthroughs in manufacturing allowing it to make the car at a profit. Meanwhile, GM wants to bring in as many as [illegible] cars a year from its Isuzu and Suzuki affiliates in Japan, and also to go ahead with its joint venture with Toyota to build a new small car at Fremont, Calif.

Why can't the U.S. car makers produce a small car at a profit? Because they cannot get the volume. Yes, the U.S. makers' labor and material costs are higher than those of the Japanese manufacturers. But that is only part of the story. There is also overhead—the allocation of a company's fixed costs such as administration and depreciation to each unit produced. The trouble with the Ford Escort is that it doesn't have enough volume to absorb the fixed costs. It doesn't even have the volume that the Ford Falcon had back in the 1960s. Ford made money with the Falcon, loses money with the Escort.

Amortized Worldwide

Meanwhile, the Japanese manufacturers amortize their costs not only on the Corollas they sell here, but on the millions they sell in all countries.

Thus, they achieve their necessary volumes because their country encourages exports. Japan does this partly by forgiving value-added taxes on export products, while U.S. manufacturers' taxes become part of the price of their cars. And partly by giving Japanese manufacturers a big boost from the relative weakness of the Japanese currency.

Consider. $1 today equals around 235 yen. Five years ago, $1 equalled 184 yen. On the same $5,000 automobile, the Japanese manufacturer received 920,000 yen in 1978 but is getting 1,175 million yen today. That's a difference of 255,000 yen—or more than $1,000 per car—which the Japanese manufacturer can use to pay for extras in his cars, making them even more competitive. Or as profits to reinvest and further strengthen his company.

Why has the yen fallen and the dollar strengthened when we are the weaker exporter? Well, we have our high interest rates drawing in international money. And Japan manages its currency to support its exports. Economists decry this practice, and frustrated U.S. Presidents—such as President Reagan on his recent trip to Japan—are forever asking Japanese prime ministers to do something about the yen-dollar ratio. But Japan, a highly skilled trading nation, tends the yen's value very carefully.

We, on the other hand, have not been an especially skilled trading nation, and we do not gear our policies for international trade. Maybe if we did, our automobile manufacturers could find a way to make money with a small car.

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Los Angeles Times

James Flanigan

GM Has Logic on Its Side in Toyota Car Venture

There is no denying that General Motors' joint venture with Toyota to produce a small car at Fremont, Calif., is being greeted with more nationalistic emotion than rational analysis.

The reaction since February, when the two companies announced the plan, has been a mixture of anger at GM for betraying the home team and chagrin at the humiliation of a symbol of U.S. know-how. An Oliphant cartoon showing GM as a senile old man in a wheelchair being pushed by a young Japanese attendant said it all on this side of the ocean. A cartoon in Asahi, showing a car labeled GM being towed by a car labeled Toyota, said much the same thing in Tokyo.

It would be more useful for an understanding of the world today if we examined the facts of the case. GM and Toyota have just been given antitrust immunity by the Federal Trade Commission to produce 250,000 cars a year at a GM assembly plant in Fremont. The cars will be modifications of the basic Toyota Corolla design. The use of an existing plant and an old design make the project economically feasible, because they bring down the needed investment—to $300 million.

To produce a new, small car from scratch would cost about $1 billion, as GM knows, because it has announced just such an investment to build a new economy car in the U.S. before the end of this decade. GM gave up on a previous attempt at a new, small car two years ago, because it couldn't work its manufacturing costs low enough, nor could it get special wage and work-rule concessions from the United Auto Workers. Its new project will try to leapfrog manufacturing technology to overcome such difficulties.

In the meantime, GM is replacing the aged Chevette model for its Chevrolet dealers by doing what millions of its former customers have done over the last decade: buying Japanese. It is a rational move because the Japanese are the world's low-cost producers of automobiles today. They gained cost supremacy by investing time, effort and money in manufacturing know-how.

They did the same in robots, which is why the same General Motors, after surveying the capabilities of seven U.S. robot makers, last year entered a joint venture in robotics with Fanuc Ltd. of Japan. Struggling U.S. robot makers reacted angrily at GM for not supporting U.S. industry. But that kind of reaction only excuses our own past shortcomings. "GM went with the guy who had made the investment to become the most capable supplier," says one U.S. businessman dispassionately. "Why should they be blamed?"

None of this means that GM is surrendering the battle for cost leadership. The Toyota and Fanuc deals, in fact, can be seen as part of its battle to regain its position. But it will not be easy. With a vision before them of huge future markets—as the two-thirds of the world's people residing in developing countries come into the motor age—the Japanese will not lightly surrender the leadership they worked long and hard to win.

Nor do the Japanese compete unfairly to fulfill that vision, as some of our self-comforting myths would have it. If the U.S. has a useful product, the Japanese will buy it. "We have no trouble selling computer-aided design equipment in Japan," says a top executive of General Electric.

OK, the Japanese worked with long-term vision. But what did we do? Simple. We built a high standard of living. As is well known, GM's wages and benefits are 60% higher than those of Japanese car makers. What is less commented on is that, for most years in the 1960s and early 1970s, GM paid out more in dividends than it spent on capital improvements. Did anyone in those years protest GM's high dividend? Or its medical benefits for employees? If today we are like an athlete trying to sweat off the banquet circuit's indulgence, we should not deny that our earlier choices were freely made.

We need to be equally clear about our present situation. We, and the Japanese as well, compete today with extremely low-wage, developing countries. We will not succeed by holding out their goods—they are our potential markets, after all. Rather, we will have to buy their labor-intensive products, while concentrating our effort and investment on products and processes that benefit from our undoubted technological strength. And we must invest and work to maintain that strength. The choices before us may not be easy, but let them at least be rational.

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$1-¥200 Exchange Rate Appropriate: Panel

WASHINGTON (AP)—A binational commission set up to examine U.S.-Japanese relations reported Tuesday that friendship between the two countries could be imperiled if their massive trade imbalance continues to grow. It recommended "vigorous action and visible results" in both countries to head off that possibility.

That assessment was contained in an interim report released by the United States-Japan Advisory Commission, which was set up last spring by President Ronald Reagan and Prime Minister Yasuhiro Nakasone to make recommendations on overcoming bilateral frictions.

The six-page report said that despite a strong core of friendship, "persistent bilateral friction, aggravated by the recessionary conditions of the past several years, has been eroding the sense of public goodwill in both countries."

Given the common interest of both countries in maintaining a prosperous and peaceful world, the most important outcome of the scheduled meeting in Tokyo next month between Reagan and Nakasone "will be the affirmation of our positive partnership," the commission said.

The commission is composed of seven Americans and seven Japanese, with former U.S. Deputy Defense Secretary David Packard and Japanese Foreign Ministry adviser Nobuhiko Ushiba serving as co-chairmen. The commission held a plenary meeting in June and another in September.

The commission said the strength of the dollar in comparison to the yen has had a significant impact on bilateral trade by making American goods less competitive in Japanese markets and Japanese goods relatively inexpensive in the United States.

Packard delivered a copy of the report to Secretary of State George P. Shultz on Tuesday after reviewing its findings at a news conference. The final recommendations of the commission will be made next spring.

The report called on both governments "to give high priority to actions to bring the yen and dollar into better balance." At his news conference, Packard said commission members generally agreed that the yen, now valued at about 245 to the dollar, should more appropriately be in the 200 range.

Packard said the bilateral trade imbalance for the current year will be a minimum of $22 billion, the result of annual increases of 16 percent in Japan's U.S.-destined exports compared with a U.S. export growth rate of only 9 percent each year.

"There are no signs that this trend is being reversed," the commission said. "To preserve and strengthen the overall U.S.-Japan relationship, it is essential the growth of the bilateral trade imbalance be brought under control. Vigorous action and visible results in both countries—by governments and by the private sectors—are essential."

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Seen as Move to Ease Trade Friction

Japan to Strengthen Yen, Cut Tariffs

TOKYO (AP)—Japan's government intends to boost imports by stimulating the domestic economy, cutting tariffs and strengthening the yen, but Foreign Ministry officials were cautious Thursday about predicting the effect of the new policies on Japan's booming trade surpluses.

"We expect, if everything goes well and efforts are made at the other end, that it will bring about imports to Japan," said a ministry spokesman, Wasuke Miyake. "But it's rather difficult to estimate."

Miyake said the six-point package is expected to be formally approved by the cabinet this morning.

Coming less than three weeks before President Reagan's Nov. 9-12 visit to Japan, the package was seen here as an attempt to demonstrate that the government is trying to scale down trade surpluses.

Japan's fat trade surpluses have caused friction with the United States and other nations, which frequently say their exports remain closed out of Japanese markets.

In a briefing for foreign reporters Thursday, Miyake said the domestic stimulation measures will include expansion of public works projects by an estimated $8 billion, a major income tax cut and a reduction in interest rates.

Japanese press reports said the Bank of Japan will cut the official discount rate to 5% from 5.5% today.

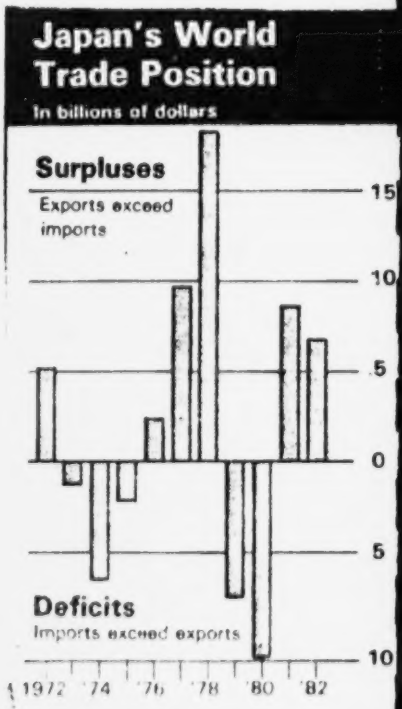
Miyake said the government will take steps to promote private investment, particularly by electric power companies, and encourage private involvement in public works projects.

The package calls for a reduction of tariffs on more than 40 items, including semiconductors, some kinds of electronic machinery, bananas, palm oil and paper products.

An undetermined number of tariff cuts slated for 1984 in the Tokyo round of multilateral trade negotiations will be enacted a year ahead of schedule, he added.

The Japan Export-Import Bank will offer low-interest loans to finance imports of manufactured goods, and make it easier to obtain short-term yen loans for all types of goods, he said.

Miyake said the government also intends to bolster the yen.



Los Angeles Times
Friday, October 21, 1983

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Goal #7: To understand economic problems and potential problems that have global implications.

Goal #8: To be able to participate responsibly in an interdependent world based on current information.

World trade is a phenomenon that nations of the world must consider in terms of their own growth and development today. Therefore it is important that all nations consider their place in the economic community, their strengths, their weaknesses, and work towards a positive contribution to the global community on this earth.

The following viewpoints explain and illustrate this global interdependency:

A. "A Classical Prescription for the Ailing World Economy, Economic Eye, December 1983.

B. "After Their Miracle, the Japanese Fear 'Advanced Nations' Disease", Time, August 1, 1983.

C. "Japanese Industrial Policy", Focus Japan, May 1983.

D. "Economy and World Trade", Japan Air Lines.

E. Charts - Overseas Direct Investments by Zones in 1982, and Overseas Direct Investments by Type of Industries in 1982 (Japan), Focus Japan, June 1983.

F. "Japan's Image in an Age of International Interdependence", Nissho Iwai Corporation, Summer 1983.

G. "Toward Strengthening and Preserving the Free Trade System", KKC Brief, November 1983.

H. "EC Calls for Japan to Step Up Imports", Mainichi Daily News, October 19, 1983.

I. "Japan Advised to Pay Equal Attention to EC Demands", Mainichi Daily News, October 19, 1983.

J. Charts: Japan's Exports and Imports by Country, 1978-1982, Ministry of Finance, Japan.

K. "An Expanding International Role", Speaking of Japan, February 1983.

L. "An Historic Responsibility", President Ronald Reagan, Speaking of Japan, February, 1984.

A Classical Prescription for the Ailing World Economy

Yoichi Shinkai

Signs of recovery from the recession that has gripped the world in recent years have begun to appear, but many negative factors still cloud the outlook for the future. The author counts himself among the minority of economists who support the anti-inflation and "small government" policies of the United States, Japan, Britain, and West Germany as the classical cure for ailing economies. Painful as they may be, self-help efforts like these, he contends, are essential to the economic revitalization of all nations, including the developing countries.

Yoichi Shinkai

Born in 1931. Received his Ph.D. in economics from Osaka University, where he is now a professor. Author of Kokusai keizai ron *(International Economics) and* Kokusai kin'yu *(International Finance).*

The United States and Britain are apparently leading the world out of the prolonged recession. Although Japan's growth rate is not yet as high as might be hoped, a mood of recovery is spreading. However, unconditionally optimistic views are seldom heard, for many negative factors, such as stagnant plant and equipment investment, high interest rates, increasing protectionist tendencies, and nations verging on bankruptcy, are causing anxiety.

Because of so many unresolved problems, debate is under way on how to restructure the international economic order. There is a strong body of opinion that since floating exchange rates cause protectionist pressures, the world monetary order should be reconstructed by holding an international monetary conference similar to the Bretton Woods conference. The present situation, these people say, is on the brink of chaos, and therefore we cannot realistically hope to succeed in revitalizing the world economy unless economic order is restored. Other people counter that although many problems remain to be solved, signs of a new order are appearing here and there. Japan and other major free-world countries, they contend, can expect a bright future.

Inflation slows but unemployment climbs

Several important developments occurred during the first six months of 1983. West Germany and Britain held parliamentary elections, as did Japan for the House of Councillors. Support for U.S. President Ronald Reagan picked up, and Paul Volcker was reappointed as chairman of the Federal Reserve Board. The Williamsburg summit of the advanced nations was held in the United States, and a general assembly of the United Nations Conference on Trade and Development was held in Yugoslavia. The two international conferences will be discussed later. Let us look here at the significance of the former developments.

During the last several years the United States, Japan, West Germany, and Britain have been following a tight-money policy in order to restrain inflation. Active fiscal policy of a Keynesian type has been for the most part avoided, although the United States did implement a series of

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Concern for equitable distribution and, to go even further, the lives of the people has faded away; in its place is a much greater concern for economic order. I would not dismiss a high regard for order as being wrong. It is only proper for the Ministry of Finance to place a great deal of importance on maintaining order in the nation's finances and for the Bank of Japan to stress monetary stability. By the same token, it is only natural that the Finance Ministry should give top priority to restoring Japan's fiscal health and for the Bank of Japan to do everything in its power to suppress inflation; otherwise, the economy will plunge into chaos. However, this is not to say that all economists must speak in a single voice with the Finance Ministry and the Bank of Japan.

Stability of the economic system does have meaning in itself, even though the maintenance of this stability necessarily involves a degree of protection for vested interests. Our concern for stability, however, should not cause us to protect unjust rights and interests that clearly conflict with the declared legal and moral principles of the society. We must not refuse to recognize that some sets of rights and interests are unjust.

The pitfalls of anti-inflation policy

We must examine in detail how preservation of the status quo influences the living standards of each social class. Consider the case of inflation, which is correctly identified as undesirable because it disturbs the economic order. Inflation can have the effect of promoting the growth of a newly rising group at the expense of a privileged group. In this sense, inflation sometimes has a balancing effect. Deflation, meanwhile, causes unemployment to rise and real income to fall. When deflation coincides with a situation like the present one, in which there has been a significant rise in real interest rates and a turnabout in policies to redistribute income, the negative impact on equitable distribution is substantial. We must not disregard this point and pursue an anti-inflation policy only because it helps to stabilize the yen's exchange rate.

I believe that an anti-inflation policy—particularly a rigid adherence to a policy of "cost-push deflation" by holding down wages—is wrong under the current circumstances of an accumulating trade surplus, a weak yen, high real interest rates, a swelling government debt, and an increasing number of idle production facilities. Today's anti-inflation policy poses the danger of further distorting income distribution in the future. Until now populist-minded economists may have been somewhat insensitive to the dangers of inflation. But it would be equally dangerous if deflation were to be taken up as the cause of the antipopulists.

Antipopulist tendencies can be seen in the international arena, too. Ethnocentrism is being blatantly displayed in discussions on international economic issues, and economic trends are being discussed only in the context of their impact on national economic benefit or the national interest. One no longer hears discussions on the impact of economic developments on the less fortunate peoples of the world. If news of a worldwide crop failure were reported, the loudest voices would be those demanding that the country buy up the world's grain as quickly as possible at the lowest price. If Japan should succeed in buying up the desired amount, the argument goes, the national interest would be protected. The question of how many people in the world may die of starvation as a result is totally ignored.

Of course, good will alone will not ensure amicable international relations. It is also a fact that economic aid is not always used in the best way for improving the lives of the people in the recipient country. A view that considers economic aid to other countries as a type of unavoidable social expense in our relationships with the hapless members of the international community has recently come on the scene. Such a view will not only tend to provoke moral criticism; it will also harm Japan's long-term interests.

Giving economics the human touch

This tendency of Japanese economic debate can be seen as one manifestation of the worldwide trend toward conservatism and against Keynesian policies. However, anti-Keynesianism—particularly the monetarist school of neoliberalism, which strenuously objects to the government's taking discretionary economic policies—and populism cannot simply be regarded as opposing ideas. Populism has traditionally placed a strong emphasis not on government interference but on the freedom and initiative of the people. Populists have traditionally been distrustful and wary of government authority. It has only been since U.S. President Franklin D. Roosevelt's New Deal that populism has played a role in government policy.

In contrast, Japanese antipopulists harbor almost no distrust of authority. In fact, they even have a strong tendency to respect order and authority on both the economic and the social fronts. Therefore, although one may call their ideology *conservatism*, it would be inappropriate to call it *liberalism* in the true sense of the term, even if it were to be described as "conservative liberalism." Their call for "protection of the free economic system" and their emphasis on the "vitality of the private sector" are essentially meant to fortify the existing economic system. This explains why an antimonopoly policy, which would help bring into being a truly competitive system, plays no part in their plans.

What I wish to stress here is that recent changes in what is perceived as common sense or accepted thinking in economics are attributable more to a change in ideological standpoint than to developments in economic theory. In my opinion, this ideological shift may be summed up as one moving from populism to antipopulism. At present, it may be difficult to avert the ebbing of the populist school of thought, for the shift toward antipopulism is part of the more general move toward conservatism and rightist thought.

Both the segment of Americans who advocate the "new economics" and their Japanese followers seem to have, to paraphrase the economist Alfred Marshall, too cold a mind and heart. The result is a rather "cool" attitude toward the less fortunate people at home and in the developing areas of the world. To be sure, warmheartedness alone will not solve problems. But unless economics shows a sincere interest in improving people's lives, it will not succeed in drawing their support.

Translated from *Ekonomisuto*, September 6, 1983.

income tax cuts. Business was slumping until recently, and unemployment in the four countries reached a high level. Yet in Japan, West Germany, and Britain, it was the conservative parties supporting monetary restraint that enjoyed sweeping victories. In other words, the public opted for checking inflation rather than relieving high unemployment through government spending. Although there has been no election yet in the United States, support for President Reagan is increasing. Strong public opinion was a factor in Volcker's reappointment as Fed chief. This indicates that the central bank's tight-money policy has been accepted by the U.S. public.

The case of France is slightly different. There the shift in policy to retrenchment occurred not as a reflection of public opinion but because the initial Keynesian stimulation applied by the Socialist administration failed to work. Even in France, however, the public seems to have cast a vote for monetary restraint by dealing a setback to the Socialists in the local elections this year.

Although the rate of inflation in France is still high, the retrenchment policy is likely to stabilize prices very soon. Inflation in the other four countries has already been calmed. From the experience of the 1970s and early 1980s, it has become clear that the only way to restrain inflation is to tighten monetary controls.

The resulting cost in unemployment has been high. But the main factor in the original outbreak of inflation was the accommodation of monetary policy to a fiscal stimulation policy implemented despite the recognition that it would have only a small positive impact on employment. To speak at this time against the anti-inflation policy, citing its high unemployment cost, would not be persuasive. Still, the opinion that controlling inflation is essential for economic recovery even at the cost of high unemployment is one held mainly by policy makers and voters. The majority of economists do not agree. They insist that active stimulation measures should be implemented on the grounds that a loose-money policy will not spur inflation in a situation of widespread unemployment.

Still, few economists go as far as to argue openly that high inflation should be tolerated. One reason is that in the United States, inflation became public enemy number one even without exceeding an annual rate of 20%. In short, the public has a low tolerance for inflation, making the theory of accepting inflation politically untenable. Another reason is that in Latin American and other countries with exceptionally high inflation rates, the harm done by inflation has become more conspicuous. Only Israel seems able to withstand raging inflation without serious damage.

At any rate, as long as there is general agreement that inflation must be reined in, critics of the anti-inflation policy can only argue that the tight-money restraints should be eased somewhat. Debate that in this way pivots on questions of slight changes, we must conclude, is based more on opinions than on hard data.

Prime Minister Nakasone and U.S. President Ronald Reagan during the latter's recent visit to Japan

The classical prescription for revitalization

Based on this analysis of the past decade, I count myself among the minority of economists who support the direction being taken by the present policy makers in line with public opinion. Our basic premise is that it is necessary to keep the annual rate of consumer-price inflation under 5% in order to avoid stop-and-go policy shifts and to move the economy toward a path of stable growth. This premise, however, is only one precondition for stable growth. Another is a lowering of interest rates. It is doubtful whether this second precondition can be achieved by monetary means alone, for budget deficits may get in the way.

The governments of the United States,

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Japan, West Germany, and Britain have set their sights on "small government" for the purpose of reducing budget deficits. For obvious reasons, the government of France is taking a different tack. As I see it, the twin policies of aiming at small government and practicing strict monetary control can be termed the classical prescription for economic revitalization.

Readers may think that this classical prescription is only a domestic policy for each country, that it does not relate to the international economic order. A minority of economists including myself, however, hold that healthy international economic relationships are the relationships that result when each member of the international community has a healthy economy. Above all, the revitalization of the major nations' economies is important. When there is no mutual agreement on the basic policies for economic management, discussion of the international order will not yield fruitful results. The Williamsburg summit and the UNCTAD general assembly provide a clear indication of this.

The Williamsburg statement on security, which called for a reduction in the threat of war, led many people to criticize the politicization of the summit, which had previously focused on economic issues. In my opinion, however, it is the sympathies of these critics that should instead be called into question. During the period leading up to the summit, these anti-Americans had been calling for cutbacks in U.S. arms expenditures as a basic condition for the revitalization of the world economy. After the security statement was announced, they accused the summit of having been politicized. But if there had not been any reference to arms reduction, they probably would have attacked the summit for failing to advocate military restraint as a basic condition for economic revitalization.

The advocates of anti-Americanism naturally were annoyed with the summit, for it demonstrated the unity of the West, but how should we regard the fact that ordinary people as well commented on the summit's politicization? Probably this reflected the prominence given to the arms reduction talks by the summit participants. What people failed to take into account, however, was that the summit pronouncements were underlaid by a broad agreement in the economic field, for most of the participants are implementing policies in line with the classical prescription. Even Italy, which has been reconsidering its wage indexation (*scala mobile*) system, is moving in the same direction. Long discussion is unnecessary when there is mutual agreement on the basics, so little time was spent on economic matters at the summit.

The major economic confrontation concerned France's hope for a new system of fixed exchange rates and the opposition of the United States and other nations to the restoration of fixed rates. Because France's main objective lay in persuading the United States to buy French francs, inevitably the French proposal drew little support. My personal view is that more should have been done to save face for President François Mitterrand. This is because the leftists in the French Socialist Party are expected to intensify their pressure on the government in the autumn, perhaps pushing France toward protectionism. It would have been better if the president were not in a position to use the lack of cooperation by the summit participants as an excuse for bending to such pressure.

Even if an international monetary conference were held now, however, the prospects for its success would be very slim. The Bretton Woods system of fixed exchange rates was successful largely because only two countries, the United States and Britain, were involved in its design, with the United States dominating the process. Bretton Woods was not a case of basic agreement on fixed exchange rates by a large number of countries.

If another monetary conference were held today, there would be fundamental disagreement between the United States and France on the design of a new monetary system, and further differences of opinion would arise if developing countries participated. The conference would be not a second Bretton Woods but a repeat of the world monetary and economic conference held in London in 1933. Opened to seek agreement on a new economic order to cope with the Great Depression, the London conference foundered on American and French disagreements and was eventually adjourned with no date set for a new conference and with the world moving toward separate economic blocs.

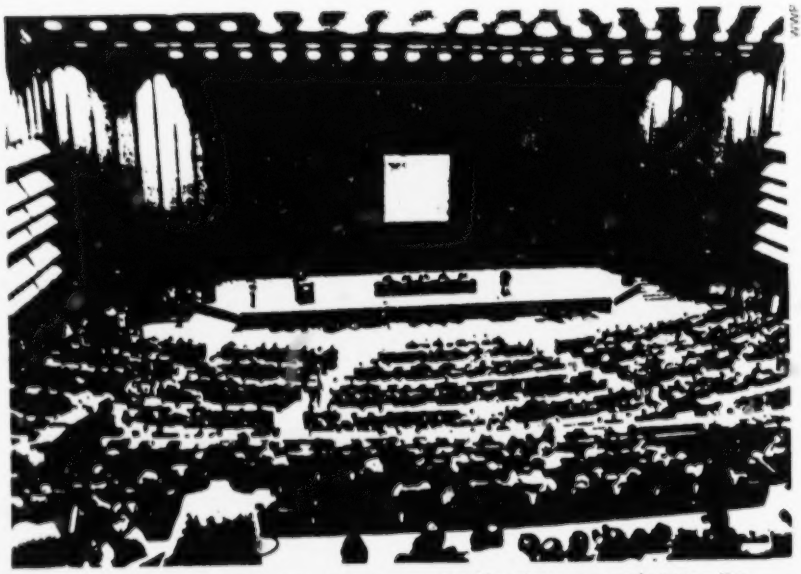
The UNCTAD general assembly [illegible] recently in Belgrade was another [illegible] of the poor results at international conferences where a basic agreement is lacking. The standpoint of the major advanced nations was that each country should follow the classical path to recovery on its own, a path that places great importance on self-help efforts. These countries argued that the developing countries as well should follow the self-help formula. But the developing countries requested various measures involving economic intervention from the developed countries, such as a redistribution of income and wealth, price supports for specified products, and linkage of the international monetary system and development aid. Since the basic standpoints were totally different, it was no wonder that the assembly yielded few practical results.

Another feature of the UNCTAD meeting is that empty rhetoric came to the forefront; real negotiations failed to take place. Although requesting redistribution of the world's wealth, the developing countries showed no intention of redistributing wealth at home. While strongly protesting protectionism, the developing countries strictly control imports, and sometimes exports, too. And some of the developing countries that advocate economic development by a reduction of military expenditure are spending more on armaments as a percentage of GNP than are the developed countries.

The UNCTAD assembly was an attempt to make use of propaganda so as to find a middle path between the positions of the developed and the developing countries. It is not my intention to argue here that the conference had no meaning. What I would like to emphasize is that it is an illusion to hope that a new order can be shaped by convening conferences and exchanging opinions. It may be fashionable to talk about international conferences and forums for dialogue, but even such talk is usually empty rhetoric.

Conditions for revitalization

When each country revitalizes its own economy by self-help efforts, will we then face no more problems in maintaining economic order in the world? In other words, when each nation makes efforts to stimulate its own economy, will this be a



UNCTAD VI, held in Belgrade last June, was marked by disagreement between the North and the South as to the best means of revitalizing the world economy

sufficient condition to stimulate the world economy? In my opinion, other conditions must also be met.

The first condition is free trade. If all countries follow the rules of free trade, no contradiction will arise between the classical recovery programs within each country and the maintenance of international order. These rules, however, do not have any compelling force behind them. Many countries are liable to control imports while upholding classical principles in other respects. The exchange rate system is one of the factors causing protectionism, as will be discussed shortly. But first I would like to make a different point.

Attempts to uphold the classical economic order also have a painful side. Since the progress of technology is rapid and people's preferences are changing quickly, declining industries are appearing one after another. Industrial decline is sometimes a result of domestic factors and at other times caused by import competition. Whatever the case, the costs of industrial adjustment may be high. The classical prescription does not necessarily rule out measures to reduce the pain. But the easiest measure to adopt is import controls, and countries restricting imports are likely to argue that they are merely implementing a positive adjustment policy.

In this way there is a tendency for a country to reduce the costs of industrial adjustment through import controls even while other countries are practicing free trade. The problem here is that the factors inducing trade restrictions in one country are also present in other countries, and lacking any compelling reason to abide by free trade, they are liable to jump on the controlled trade bandwagon for a free ride. As soon as one country steals a ride in this way, others will follow suit, and in no time at all free trade will disappear. Although the result will be far removed from the ideal of the classical order, no mechanism that could prevent this sort of cumulative destruction of free trade now exists.

The second condition is the presence of a well functioning exchange rate system and of suitable controls on international currencies. The classical order does not conflict with the gold standard system or the Bretton Woods system. The history of the gold standard shows, however, that under this system economies did not perform as well as they might have. Similarly, the experience in the 1960s under the old Bretton Woods system of pegged exchange rates teaches us that free capital transfers sometimes made the pegging of rates difficult. If a new pegged-rate system is to be established, some way of controlling large-scale capital flows that would threaten the system must be found.

The disadvantages of floating exchange rates have been extensively discussed recently. Here I will mention only the pressure that the float exerts on the trading sector. Floating rates tend to overshoot the equilibrium level. When monetary controls are tightened or eased, exchange rates tend to appreciate or depreciate in advance of a fall or rise in prices. Overshooting in this sense has reportedly occurred under floating rates ever since the seventeenth century, so it may be an unavoidable defect of the system.

When monetary restraint is enforced, the exchange rate appreciates and causes a slowing of exports and an expansion of imports. Export industries are hit hard, and the closed markets of trading partners become a target of criticism. Industries competing with imports also suffer, and again trading partners are accused of unfair competition. Since it may take a year or two before prices respond to the monetary controls, during that period the trading sector bears the burden of an exchange rate that has overshot its mark. This situation easily leads to protectionism.

It is doubtful whether overshooting can be prevented by intervention, even coordinated intervention by several countries, in the exchange market. The main problem is the difficulty in telling whether the change in the exchange rate is being caused by overshooting or by basic economic changes. There are some grounds for thinking that overshooting is brought about mainly by the transfer of long-term capital. If this is so, the phenomenon could be alleviated by permanently enforcing a moderately high interest equalization tax.

The third condition is a solution for the debt problems of Latin American nations and other countries. So far consortia of private banks have been working with central banks to reschedule the loan repayments of countries in trouble. A few theoretical analyses have demonstrated that both lenders and borrowers benefit from this. Moreover, no conflict arises between the classical order and this type of intervention by central banks and the International Monetary Fund. But if debt-ridden countries are permitted to default, or if the IMF is transformed into an aid organization by increasing its funds substantially, the classical order will be upset. This is because the countries with the largest debts are newly industrializing countries. They are not truly poor countries deserving of aid for the weak.

One argument for letting certain debts be canceled without payment and turning the IMF into an aid organization is that this is the only possible way to prevent a contraction of world trade. This argument

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has its points, but my concern is that the result would be financial irresponsibility among debtor countries. In the long run this would cause distortions in effective capital distribution. Therefore, the present arrangements should be left intact. Even if some country eventually defaults on its debts, the central banks of the lending countries should be able to take measures to counteract credit instability.

This type of protectionism is the most troublesome problem the world faces. Protectionism cannot be solved merely by convening international conferences and engaging in fine-sounding but hollow debate. It seems that the only way to move forward is to continue negotiations in a bid to avert a contraction of trade as much as possible, as the Japanese government has been doing up to now. This may be a painstaking way of resolving problems, but it is still the best way. If protectionism becomes widespread despite such efforts, we will have to resign ourselves to it. In any event, there are much worse evils than protectionism in the world.

The dangers of nonclassical systems

The classical economic order is not, in my opinion, the best of all possible worlds. Since self-help is the key to the classical prescription, a heavy burden is placed on the weak. Human nature being what it is, however, the revitalization of the world economy cannot be achieved by any other means. If we choose instead to take a nonclassical approach, we will be courting danger.

One example of a nonclassical system within developed countries or groups of developed countries is price supports for farm products. It is well known that the deficits in Japan's food control system are straining the national budget and may cause future inflation. A similar system is in effect in the European Community, with the result that most of the community's budget is spent on price supports and export subsidies for farm products. Some EC countries benefit more than others from this system, so it gives rise to endless squabbling. Should the community ever be disbanded, no doubt the farm policy will be to blame.

Once this sort of system is established, it comes under the influence of the prevailing political climate. Under the classical principle of self-help, economic factors determine the outcome. But under a price-support system for farm products, noneconomic factors determine the level of subsidies and the allocation of costs. Competence in such affairs as gathering votes, operating bureaucratic organizations, and speaking eloquently at conferences are important factors in shaping policy. This is why in a nonclassical system power and wealth become concentrated in specific groups. The truth of this assertion is self-evident from the examples of the Soviet Union and the third world.

The demands made by developing countries at the UNCTAD meeting are aimed precisely at this kind of nonclassical order. Although the proposed programs carry fine-sounding names, such as the common fund for the stabilization of primary product prices or financing systems for the stabilization of export income, the reality is that they are North-South versions of Japan's food control special account. If North-South versions of this system come into being, they will only lead to inflation and trouble in the future.

Two particularly dangerous nonclassical proposals, though they were not central topics at the UNCTAD conference, are that the IMF be democratized and that permission be given for special drawing rights to be used for development purposes. These proposals deserve special attention because they are so appealing and yet so unsound. It is easier to understand the intent through the analogy of domestic finance.

At present, growth in Japan's money supply is handled independently by the Bank of Japan. The money supply is increased not by circulating new funds without compensation but by exchanging the funds for privately held securities. Other techniques of increasing the money supply are also possible. For example, money can be inserted into the economy to finance a government deficit. If government spending goes for genuine public goods, this method will not do much harm. But if the budget deficit is caused by the government's income redistribution programs, the results of the financing will not follow the classical model. One development might be an increase in the money supply utilized for bonuses paid to local government civil servants. Another development, if monetary policy were [illegible] democratically, might be that labor unions would use their clout to influence the way the money supply is increased. Eventually the supply of money would rapidly accelerate, resulting in inflation.

The proposals to link SDRs to economic development and to make the IMF more democratic would lead to these two results. That is, the SDR proposal would cause increases in money supply to be used for redistributing income, and the democratization proposal would allow IMF loan recipients to do as they please in regard to monetary policy. The intent of the proposal on SDRs, which are a currency in their own right and which, as long as their interest rates remain low, are of the nature of gratis aid, is to use new SDR issues to aid developing countries. The intent of the proposal on democratic operation of the IMF goes even further, for the third world would gain control not only over SDRs but also over their interest rates. Worldwide inflation would be inevitable.

These two examples clarify the developing countries' concealed aim under the name of a new international economic order. The revitalization of the world economy is not their concern. Their primary objective is the destruction of the classical order so that they can benefit. I do not mean to blame the third world. It is only doing what Japan's farmers and civil servants are also doing—seeking benefits for themselves.

I do not object to aiding the poorest countries in order to reduce the harshness of the classical order. Whether domestically or internationally, providing relief to the weak is a natural impulse. But the truly weak are not the ones clamoring for a new world order. As in Japan, where the farm bloc and the unions of civil servants are not really underprivileged, the loudest voices at the UNCTAD gathering were calling for systems that would mainly benefit the newly industrializing countries. But these countries are not redistributing income at home. It would be the height of folly to give in to their demands and open the way to the destruction of the international economic order.

Translated from *Shukan Toyo Keizai*, August 26, 1983, special issue.

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After their miracle, the Japanese fear "advanced nations' disease"

The rest of the world must begin to perceive what the Japanese perceive. And the Japanese must reciprocate. The global economy cannot run on so many cultural subjectivities. Japan has become too powerful and too crucially interconnected in the world to be so little understood, or so little understanding. Akio Morita, the cofounder of Sony, likes to tell his employees that the company is a "fate-sharing vessel." They are all in the same boat. The Japanese for most of their history have thought of their islands as the fate-sharing vessel. The definition of the boat must now be expanded. It must learn to make accommodations for the world at large.

This will be difficult. Japan's culture, always kinetic, is now veering into territory where it has never been before. The Japanese postwar economic miracle is cresting. Japan is a fascinating success, as a business and as a society. It is prosperous and famously homogeneous, safe and civil, bound together by a social contract that is startlingly effective. Yet, paradoxically, Japan's very success has grown threatening, its future shadowed and complicated. The Japanese face new problems, inside, among their densely close-woven tribe, and outside, with the rest of the world.

The Japanese have been known in the past for being able to turn their civilization on a dime. After 215 years of deliberate feudal isolation during the Tokugawa period, Japan threw itself open in 1854. It was, wrote Arthur Koestler, like breaking the window of a pressurized cabin: the Japanese crashed out into the world devouring everything that had been done or thought in the rest of the planet during their long encapsulation (the late Renaissance, the Enlightenment, the Industrial Revolution). Rarely has there been an ingestion of foreign influence so smoothly accomplished. The Japanese did something of the same thing after World War II. Military fascism did not work. The entire people switched over with amazing cultural equilibrium to democracy under a constitution partly devised by a group of young lawyers on Douglas MacArthur's staff.

According to the stereotype, the Japanese are merely clever copiers of other people's inventions. Now the Japanese find that they are on the verge of joining the leaders of the world. They do so almost reluctantly, the role makes them uncomfortable. Now they must do the inventing. Says Prime Minister Yasuhiro Nakasone: "We must formulate a society for which there is no precedent in any other country."

The new international troubles of the Japanese arise from their doing almost too well at their economic ventures. After 1945, Japan's industrial plant was in ashes. MacArthur said that he hoped eventually to rebuild the country to the point where it would become "the Switzerland of Asia." Today, Japan is the second most powerful economy in the free world. Its trillion-dollar-a-year industrial machine accounts for 10% of the world's output. By 1990, the Japanese may achieve a per capita gross national product that surpasses that of the U.S. As a 19th century French tourist said of another island people, the English: "*Mon Dieu, comme ils travaillent!*"

Japan's best friends in the world are still the Americans, a fact that should give the Japanese pause. For even Americans view the Japanese with suspicion and ambivalence, with fascination and admiration and resentment intermingled. A poll by the Los Angeles *Times* last spring found that 68% of Americans favor trade restrictions to protect American industries and jobs. The American trade deficit with Japan could well reach a menacing $21 billion this year. It results partly from superior Japanese competitiveness and products, partly from unfair Japanese barriers to trade, and partly from an overvalued dollar and undervalued yen. Most Democratic presidential candidates, including Walter Mondale, have courted the labor vote by urging new kinds of protectionism. A former Japanese ambassador to the U.S., Nobuhiko Ushiba, said in April that he had "never seen the mood on Capitol Hill as ugly as it is now toward the Japanese." Unemployed Americans focus their anger upon the Japanese, at least when they are not blaming Ronald Reagan. In West Virginia, a charity raised money by selling sledgehammer hits on a Toyota. A recession bumper sticker read: WHEN YOU BOUGHT YOUR JAPANESE CAR, 10 AMERICANS LOST THEIR JOBS.

Other peoples tend to be even more critical. If the protectionist noises in America amount to a sort of restive snarling here and there across the countryside, such sounds abroad are full screams that sometimes translate into government policy. The French last October began funneling Japanese videotape-recorder imports through a tiny customs station at Poitiers. Some 200,000 items were blocked by delays for inspection and other red tape until the ban was lifted in April this year. As other economies around the world feel increasingly threatened, their fears could set off waves of protectionism that might cripple the world economy.

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The world looks at Japan through one lens, the Japanese see themselves through another. Japan is a global force with an insular mentality, a superior organism that still harbors the soul of a small, isolated land. Living on their archipelago in the "Pacific Ring of Fire," vulnerable as always to earthquakes and typhoons, virtually unarmed, without any significant natural resources, dependent on the outside world for oil and food, the Japanese have a hard time seeing themselves as any kind of threat. "In our history of 2,000 years," says Taro Aso, a member of the Japanese parliament, "this is the first time that the Japanese have not had to worry about poverty. We are *nouveau riche*, a nation of farmers a short time ago. It is difficult to accept international responsibilities when you have an inferiority complex."

The Japanese also argue, correctly in part, that the Americans use them as scapegoats, blaming them for the failures—managerial, cultural—of American business and labor. Says Brookings Institution Economist Lawrence Krause: "The damage that the Japanese do to the U.S. is trivial compared to what we do to ourselves—through bad management and bad planning."

The Japanese approach to other nations has grown far more sophisticated recently. Japanese businessmen have led the way. They have traveled the world and studied its languages. They have worked its trade routes with single-minded energy and curiosity, selling their wares, studying everything, plundering the remotest cultures and factories for information. They are Oriental Vikings armed with cameras and a samurai's resistance to jet lag. Prime Minister Nakasone has displayed a newly extraverted international style for a Japanese leader. He has, among other things, awakened what is for the Japanese the painful subject of their rearming, or at any rate contributing a greater share to the defense of the non-Communist world.

Japanese problems at home are also the complicating side effects of success. Many Japanese fear that they are beginning to suffer from what they call "advanced nations' disease," though the attack is not yet acute. In a recent poll, 89% of Japanese described themselves as happy with their lives. The present undoubtedly looks handsome compared with the bleak aftermath of the war. Many of the men who are now in the middle management of Mitsui and Mitsubishi were babies being fed a grain of rice at a time in 1946. Morita and Masaru Ibuka founded Sony that year by scrounging around the firebombed ruins of Tokyo for parts with which to build broadcasting equipment.

But if the Japanese are happy, why does Japan hurt so much in so many different ways? It is as if the Japanese have been single-mindedly intent, since the catastrophic end of the war, upon survival and then success. Now, in the fulfillment of so many of their ambitions, they have raised their eyes and looked about them, and seen that success has a price.

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JAPANESE INDUSTRIAL POLICY

Remarks by
Sadanori Yamanaka

Minister of International Trade and Industry
on April 18, 1983

1. There has recently been increasing interest overseas in Japanese industrial policy, and some people have said that Japanese policy amounts to targeting in the high-technology field. Although there have been no official complaints or criticisms lodged by foreign governments, nor have Japan's critics defined exactly what they mean by targeting, an explanation of the thinking behind Japanese industrial policy may be in order.

Basic Thinking Behind Japanese Industrial Policy

2. One of the most important functions of the state is to facilitate economic development and to enhance the popular welfare. Since industrial activity is the cornerstone of national economic development, all states practice a wide variety of industrial policies, albeit under different names and in different forms. Japan is hardly an exception in promoting industrial policy for the popular welfare. Indeed, it is in recognition of the universality of industrial policy that this has been a subject of discussions within the OECD for nearly a decade. Lest anyone doubt the universality of industrial policy, I would simply point out the nationalized industries in many European countries, the enormous sums spent whithin the EC to subsidize high-technology companies, and Europe's national industrial adjustment policies centering upon industrial restructuring. In the United States, the National Aeronautics and Space Administration (NASA) and other governmental agencies funnel vast sums into technological research and development with major spin-off benefits for private industries, trade adjustment assistance is provided under the Trade Act of 1974, and a wide range of other policies have been adopted to industry's advantage.

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3. Recognizing the fundamental importance of private-sector industrial vitality and market competition in a free trading system, Japanese industrial policy is intended to meet the needs of society by encouraging a creativity – and technology-intensive industrial structure which is pollution-free, resource-conservative, and consumer-responsive. In these policies, the role of the government is to provide forecasts of emerging industrial structure trends and, when necessary, to provide a modicum of support for industry's efforts to adapt and advance.

4. In its forecasts, the government postulates "visions" formulated after full deliberation by special study councils including labor, consumer, and business representatives as well as other influential thinkers as one way of lessening uncertainty over the future and fueling the vitality of the private sector. When necessary, the government also offers its support to supplement the workings of market mechanisms with incentives, regulations, and pump-priming. These are neither protectionist efforts aimed at limiting imports nor export-promotion policies, and Japan is steadfast in its support of free and open trade. Japanese government policies work not to hobble trade but rather to offer a forward-looking alternative to protectionism. Premised upon indirect and guideline policies, Japanese industrial policy is much more soft-handed than industrial policy activities in the other industrialized democracies.

5. The most important issues for industrial policy today are those of encouraging frontier technologies and promoting positive industrial adjustment in those industries which have lost their economic rationality.

   i. Frontier technologies are essential to revitalizing the global economy and expanding the scope of economic activity for people everywhere, and all of the advanced industrial countries are intent upon their promotion. The main thrust of Japanese efforts to develop such frontier technologies rests with the private sector, and the government role is restricted to those areas where, despite strong social need, the long lead times, enormous funding requirements, and high-risk nature of the work make it impossible to expect the private sector to undertake the necessary research.

   ii. Industries requiring industrial adjustment include petrochemicals, aluminum refining, and other industries which have been plunged into difficulty by changes in external circumstances resulting from the second oil crisis. In these areas, industrial policy is intended to ensure long-term, leaner economic viability not by import restrictions or other measures to preserve the status quo but rather by scrapping excess capacity and promoting consolidation, technological development, energy conservation, and the like. These Japanese policies are in accordance with the positive adjustment policies (PAP) agreed upon within the OECD.

International Implications

6. Some people in the United States have tended to blame Japanese industrial policy for the various bilateral problems arising from Japanese competitive strength in high-technology fields and to turn to trade restrictions in retaliation. Such a response is fraught with danger to the world economy.

   i. If protectionist measures are condoned because of the differences in various countries' domestic policies carried out within the bounds of the relevant international rules, this will encourage the protectionists and might ultimately result in protectionism engulfing the entire world economy.

   ii. If criticism of other countries' research and development policies is allowed to have an inhibiting effect upon any country's ambitions in basic research and development, this could bring world economic development and human progress to a grinding halt. President Reagan was quite right in his San Francisco speech to emphasize expanded research and development budgets "to enhance the competitiveness of U.S. industry in the world economy," and such efforts should be promoted in all countries in order to push back the frontiers of global economic development.

7. Rather than succumbing to these dangers, we should continue to promote free trade, technological exchange, cross-investment, and international cooperation among high-technology companies and should set our sights on co-existence and co-prosperity. Happily, there has been increasing cooperation and exchanges among private companies in the industrialized democracies. At the government level as well, the Japan-United States Working Group on High Technology, the Working Group on Technology, Growth, and Employment Established by the Heads of State and Government at the Versailles Summit, and other groups have begun study and formulated a number of valuable proposals on high-technology cooperation. For the future, all countries should work in the spirit of cooperation and coordination in keeping with these proposals to maintain free trade in hightechnology fields, to promote the participation of foreign-affiliated companies in government-assisted research projects, and to promote international cooperation in research and development. The industrialized economies can be revitalized only by such free trade in high technology, exchanges of capital and technology, and international cooperation as was stressed in the Versailles Summit Declaration and by the Working Group on Technology, Growth, and Employment. It is incumbent upon the Western democracies to move in this cooperative direction.

ECONOMY & WORLD TRADE

Only a century ago, Japan's economic system was based on a rice tax. Rice was the official medium of exchange, and industry was in the hands of hereditary guilds made up of craftsmen and apprentices.

Following the downfall of the last *Shogunate* (feudal military dictatorship) in 1868 and the opening of the country to the West, the new Government began laying the foundation for a modern economic system. Missions were sent abroad to study. Foreign experts by the dozens were employed by the fledgling Government to come to Japan to help establish banks, iron and steel foundries, railroads, shipbuilding yards and other industries.

Today, after overcoming such handicaps as a 250-year long period of isolation which coincided with the industrial revolution in the West, few natural resources, limited land, and more recently severe war-time losses and destruction, Japan is one of the world's leading industrial nations.

Japan owes its industrial success to several factors, the most important of which is a large population which is ambitious, diligent, highly educated and possessed of such social virtues as cooperativeness and willingness to sacrifice for the common good.

Japan is still plagued by its lack of raw materials, its resulting high dependence upon basic trade, and the continuing existence of thousands of tiny cottage-type shop factories that date back to *Shogunate* days. In fact, a little more than one-third of the total industrial enterprises in the country have less than five employees. Another 10 per cent employ less than 30. These small firms still exist primarily by serving larger manufacturers and wholesalers as sub-contractors.

Because of their size and lack of machinery, these manufacturing units cannot match either the producton or the wage scales of larger companies. The average wage disparity between large and small companies is fast narrowing. The gap is less than 30 per cent for those who are working at enterprises employing 100 to 500 workers, compared with the enterprises which employ more than 500 workers. Nearly 90 per cent of Japan's total industrial labor force is employed by enterprises having less than 300 workers.

In prewar years Japan's industry was directed toward her export markets and to maintaining a large military establishment. Today the economy is still delicately hinged to foreign trade, but growing domestic consumption of a wide range of manufactured goods has become of prime importance.

In the mid-1930's nearly half of Japan's gross national product was made up of import and export transactions. Now foreign trade makes up slightly less than one-fourth of the nation's GNP. Previously, light sundries and textile goods made up 80 percent of Japan's export. Now heavy machinery, chemical and metal products account for half the total.

Industrially, Japan is still a processing nation gravely dependent upon foreign trade. Some 60 percent of the nation's imports are raw materials. Ninety percent of her total exports are manufactured products.

Until about 1957 Japan's economy was characterized by a sufficient supply of labor, amazing advances in technology (some of it imported from abroad and some of it developed in Japan), the regular appearance of new enterprises, high profit margins and a high rate of industrial expansion. But following a slow-down in 1958, the economy began to experience a series of boom cycles of increasingly shorter duration.

These boom cycles have followed a fixed pattern. Inventory investments increase, followed by an expansion of equipment investments. This triggers an increase in production and consumption. Then imports increase, the balance of international payments deteriorates and a recession sets in. In recent years the increasing labor shortage plus rising costs of labor have resulted in a faster rate of plant mechanization, and together these factors have speeded up the phases of the boom-recession cycles.

In an effort to control the intensity of these cycles, the Government of Japan alternately raises or lowers the reserve bank loan rate either to bring about a "tight" money situation or to make money more readily available. Imports are also controlled somewhat by raising or lowering the advance deposit required to establish an import letter of credit.

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The growing shortage of labor in Japan is a result both of an expanding economy and a falling birthrate. In addition to speeding automation, the growing labor shortage is bringing about the employment of more women in the manufacturing industries and fewer in the service industries. It is also drawing labor from the farm areas into the cities. In 1955, for example, 42 per-cent of the national labor force was engaged in agricultural pursuits. In 1969, the total labor force amounted to 50.4 million and those engaged in agricultural and forestry jobs amounted to 8.99 million, accounting for 19 per cent.

Another important effect of the short supply of skilled labor has been rising wages. Wages in Japan have been increasing at an average rate of over seven per cent in real terms during the four-year period up to 1969. At the same time, however, production has been rising at a slightly higher rate. And significantly, the export products that have been undergoing the most rapid development are those produced by the highest paid workers.

The small and medium-sized enterprises in Japan are the most seriously affected by the diminishing labor pool and rising wages. Those that can manage to do so are attempting to adapt to the new situation by mergers and by modernizing their equipment as rapidly as possible. Japanese farmers are also having to compensate for the loss of manpower by mechanizing. But like the tiny industrial shop factories, they also are handicapped by their small size.

Japan passed its highest prewar living standard level in 1953. In terms of real income and real expense, the living standard in Japan today is about double what it was in the mid-1930's. This tremendous advance in the production and use of consumer goods is popularly referred to as "The Consumption Revolution," and it covers virtually every manufactured product. The Japanese now eat more meat and dairy products. Canned foods and a wide variety of "instant" foods are becoming more popular. Most Japanese families own electric fans, washing machines, rice cookers, black and white TV sets, cameras, radios and refrigerators. More than one-third own tape recorders or stereo phonographs, and a little less than 30 per cent own color TV sets.

Three important factors contributed to this change in Japan's national consumer habits. First was the sharp rise in personal income. Second was the introduction of new and relatively inexpensive products as the result of technological innovations and mass production methods. Third was the wide use of product advertising and the development of installment buying.

This third factor heralded the beginning of a new revolution, a "marketing revolution" which has entirely changed the character and system of product merchandising in Japan in a few short years. Before, products had always moved from the producers to consumers through a complex hereditary network of some tiny wholesalers and small retail establishments.

The rapid growth of consumption and the introduction of modern marketing methods was incompatible with the minuscule size of these wholesalers and retailers, and their numbers are steadily diminishing. Some of the larger manufacturers went into direct retail selling. Others helped to affiliate many of the small retail shops and wholesaling functions into national networks. Many of the small shops have merged to form larger units, some of them becoming supermarkets.

Market research is another outgrowth of this revolution, and there are several dozen independent firms active in Japan. In addition, major companies and leading advertising agencies have their own market research departments. On the consumer side, several large and influential women's organizations and women's magazines carry out continuous programs to educate and protect the consumer.

In April 1963 Japan became an IMF Article 8 nation under the terms of the Organization for Economic Cooperation and Development. This means that Japan agreed not to place exchange controls on its trade without the approval of the directors of the International Monetary Fund. The effect of this shift was to make Japan an "open door" economy for the first time.

The international division of labor and competition both at home and abroad has resulted in better, less expensive products being available to Japanese consumers. The production time for cars, for example, was cut in half in five years. Japanese are now spending proportionately more of their income on education, service and travel. The per household consumption expenditure increased 8.9 per cent in 1966, 9.6 per cent in 1967 and 9.5 per cent in 1968. But the consumption expenditure of a Japanese is still one-third of an American and 70 per cent of an Englishman, although the gap is fast narrowing.

In the first half of the 1960's, the growth rate of Japan's economy averaged 10.8 per cent per annum in real terms, and the figure in the following five years was bigger at 12.8. Considered separately, mining and manufacturing have been growing at a rate in excess

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of nearly 12 per cent a year since 1965. In manufacturing the largest gains have been made in the production of electrical machinery and transportation equipment. In the consumer field, autos played a prominent part during the 1960's. Such electric home appliances as color TV and air conditioners, especially the former, came into the limelight since the middle of the decade. Housing related products, such as aluminum sash, also became important.

In general, Japan's exports have been increasing at a faster rate than world trade, having risen from less than nine billion dollars in value in fiscal 1960 to approximately 30 billion at present. Statistically, exports have increased at an average rate of 15 per cent a year since 1960 (the highest rate of increase was 27.3 per cent in 1968, the lowest was 5.0 per cent in 1961). However, with the exception of 1965 and 1968, the 1969 value of Japan's imports exceeded her exports by an average of more than seven hundred million dollars annually. The largest deficit experienced recently was in 1961, when imports exceeded exports by $1,687 billion.

Until 1957 receipts from invisible trade made up for the deficit in the international balance of trade payments. Since that year, both of these accounts have been showing a deficit, and a balance is achieved only through the inflow of long-term and short-term capital.

By major categories, Japan's most important imports are crude oil from Iran and Saudi Arabia; wood from Philippines and Malaysia; iron ore from Australia; nonferrous metals from Zambia, U.S. and Malaysia; nonferrous metal scrap from Canada and the Philippines; coal from U.S. and Australia; raw cotton from Mexico and U.S.; wool from Australia; petroleum products from U.S.; wheat from U.S., Australia and Canada; soya beans from U.S.; maize for feeding from U.S. and Thailand; non-metallic mineral ores from U.S. and South Africa; iron & steel products from India and U.S.S.R.; office machinery from U.S.; iron & steel scrap from U.S.; fish & shell-fish from U.S., mainland China and Mexico; sugar from Cuba and Australia; meat from U.S., Australia and New Zealand; kao liang for feeding from U.S. and Argentina; medical products from West Germany and U.S.; metal working machinery from U.S. and West Germany; pulp from Canada and U.S.; aircraft from U.S.; natural rubber from Thailand and Singapore; bananas from Taiwan; raw skins from U.S. and Australia.

The U.S. is Japan's largest export market and also her largest source of raw materials. Shipment to that country accounts for one-third of Japan's total exports. The combined total of exports to Southeast Asian countries amounts to a little less than one-third. Country-wise the second biggest customer of Japanese products is [illegible] followed by Hong Kong and Taiwan.

The leading Japanese exports are steel products, [illegible] automobiles, electric home appliances, such as [illegible] tape recorders and TV sets, spun rayon fabrics, and plastics products.

One-third of all steel products are shipped to the U.S., and the remainder is distributed the world over. The U.S. is also the biggest buyer of Japanese pearls which are also widely sought in European countries.

Besides the U.S., the major customer, automobiles are increasingly exported to African countries. Other main markets are Thailand, Canada, Korea and Australia.

In 1959 the Japanese Goverment announced a 10-year "Income Doubling Plan" aimed at literally doubling the nation's living standard by 1970. Targets of the program were achieved before 1970.

One of the prime goals was to maintain an average annual growth rate of 7.8 percent of the gross national product; which would increase the GNP by 2.7 times and bring the national per capita annual income up to the equivalent of $579.

The GNP, which stood at around $55,100 million in 1961, rose more than three times by 1969 when it reached $174,200 million. The growth of the annual income per person was faster. It was $454 in 1961, and surpassed the target of $579, reaching $646 in 1964.

Encouraged by the achievement of the Income Doubling Plan, the Government developed a "Economic and Social Development Program," covering five years from 1967 to 1971. The program was revised in 1970 and the Government introduced the six-year, 1970-1975, "New Economic And Social Development Program."

The new economic and social program, covering the first half of the 70's, is aimed at achieving an annual economic growth rate of 10.6 per cent, which is to bring the GNP up to $394,000 million and raise the per capita income to $2,770. The per capita income in 1969 was $1,330.

The program envisages the economy of the nation will be more internationalized, with the amount of both export and import increasing two-fold. The target of export is $37,400 million and that of import is $29,600 million (according to the IMF counting method).

(1971)

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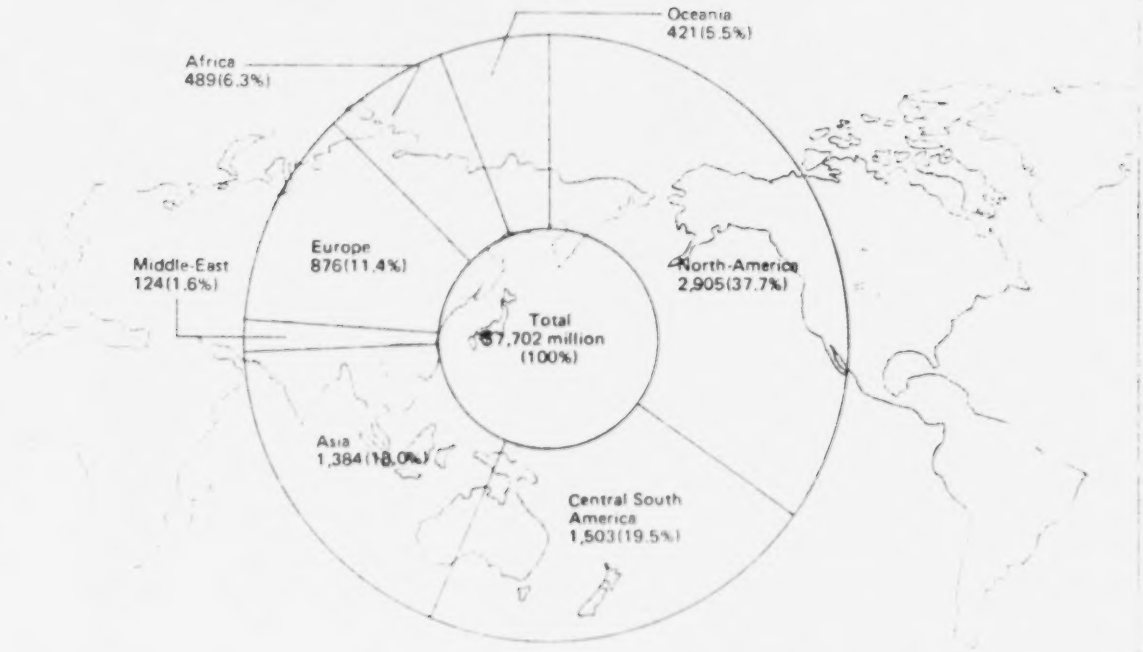
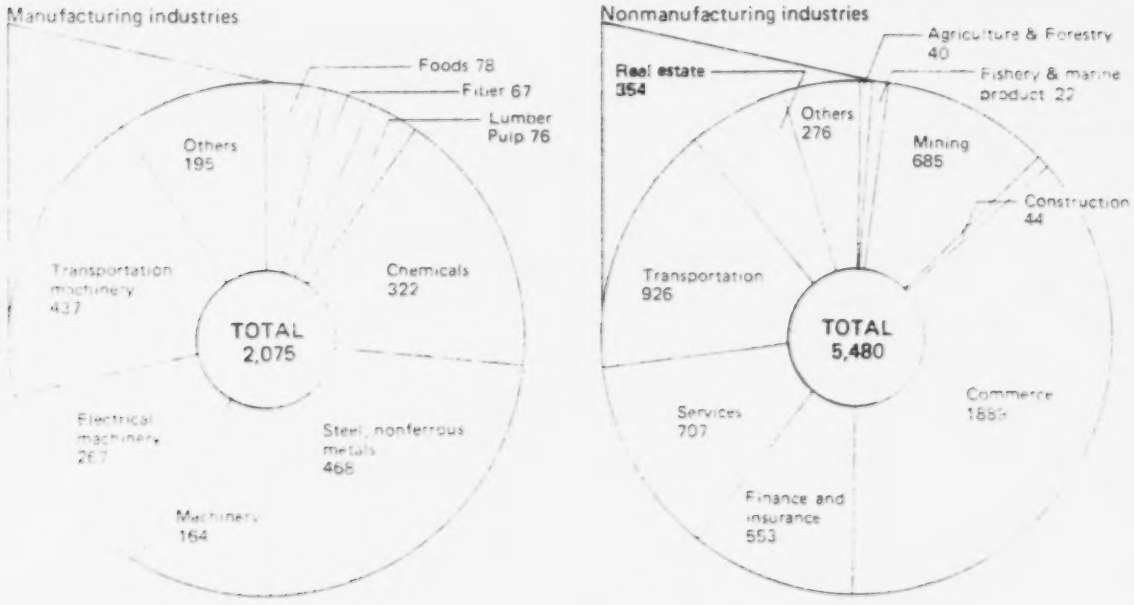
Chart 2 Overseas Direct Investments by Zones in 1982



Source: Ministry of Finance

Chart 3 Overseas Direct Investments by Type of Industries in 1982 ($ Million)



Source: Ministry of Finance

Japan Times Japan, June 1983

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Japan's Image in an Age of International Interdependence

As Japan has forged her way into the forefront of international economic superpowers, the image that she presents to the world has undoubtedly undergone a series of transformations. Currently, riding the crest of unprecedented attention from the West, she finds herself alternately praised, pondered, and reviled by observers. What are the factors behind her changing image overseas? How different are perceptions of Japan in Asia, Europe, and the United States? What steps can Japan take to polish her image abroad?

In an attempt to answer these questions, The Sanwa Bank, Ltd. hosted a round-table discussion among Japanese and American "Japan-watchers" at its Tokyo headquarters. Moderated by Toshio Obi, a research associate at Columbia University's East Asia Institute, the discussion featured the following participants: Herbert Passin, professor of sociology at Columbia University; Gerald Curtis, professor of government at Columbia University; Masahiko Inoue, senior managing director of The Sanwa Bank, Ltd.; Masao Araki, managing director of Nissho Iwai Corporation; and Timothy Curran, research associate at Columbia University's East Asia Institute.

The following is an abridged and edited transcript of the discussion, which was conducted in Japanese.

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Japan and America: Rivals As Well As Partners

Obi: I'd like to begin by asking Professors Passin, Curtis, and Curran how Japan's image overseas has changed in recent years.

Passin: The image of Japan has changed dramatically in recent years. After Japan fought America during World War II, the image of Japan as an enemy persisted in the postwar era. That image was gradually replaced by one of Japan as a nation requiring U.S. protection. This tendency continued until about 1965, when Japan's economic growth began attracting worldwide attention. At first Japan was warmly welcomed as a developing country. But as its economic growth continued through the late '60s and early '70s, Japan came to be looked upon as a rival. The perception of a Japanese challenge has combined with the former feeling of sympathy to form a complicated image of Japan in the U.S.

During the last 10 years, the image of Japan as a rival has grown stronger, and at the same time there has arisen a new image—the image of Japan as a teacher. Americans have come to view Japanese management as superior to theirs, and to respect Japanese products for their high quality and low cost. The idea that we can learn from Japan can be seen in the reaction to the auto industry slump, which has shocked Americans and caused them to raise many questions—Why is the economy of the world's greatest car producer in a recession? What is the secret of Japan's success? What can Japan teach us? The attitude that we should learn from Japan is also reflected in the spate of books about the Japanese economy, and Japanese management and business practices. But it now appears that this attitude is on the wane.

Some Americans are claiming that Japan has been guilty of unfair trade practices since 1967–70, and that it is responsible for the present bilateral trade friction. But that is not necessarily the opinion of most Americans. America comprises many groups with different interests; for example, farmers' interests differ from those of Detroit workers just laid off. The attitude towards Japan varies by region. Frankly, the present Congress is inclined to adopt a tough stance toward Japan, though many Congressmen from agricultural regions are more sympathetic toward Japan. In short, though there is undoubtedly anti-Japanese sentiment in America today, American attitudes toward Japan vary widely according to business sector, region, and interests.

Obi: Do American and European attitudes toward Japan differ?

Charts 1-8 below are taken from surveys by the Ministry of Foreign Affairs in 1978 (ASEAN countries) and 1982 (EC countries). The surveys asked people to choose from among 14 statements the one or ones that best describe the Japanese character.

Source: The Ministry of Foreign Affairs

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Curtis: A recent survey in the U.S. asked the question, "Which regions or countries should America protect?" Almost an equal percentage of people answered "Western Europe" and "Japan." What is remarkable about this is that in comparison with past surveys, the percentage of Americans answering "Japan" has increased, whereas the percentage answering "Western Europe" has remained the same. This is clear evidence that more Americans are becoming aware of the importance of Japan to the U.S.

Returning to your question, the basic difference in American and European attitudes toward Japan lies in the fact that American feelings are complex while European ones are comparatively simple. In general, Europeans know little about Japan; to them it's an exotic – sometimes threatening – country with which they've little in common. They don't take an interest in Japan until a serious problem like trade friction impinges on their lives. Perhaps their general ignorance of Japan allows them to view Japan with less bias than Americans.

Obi: How do other Asian countries view Japan?

Curran: Some time ago I had the opportunity to talk with ASEAN scholars visiting Columbia University as part of a Southeast Asia study project. They expressed much dissatisfaction with Japan, especially regarding its economic policies. But their attitude toward Japan was less emotional than that of Americans.

After objectively analyzing their relationships with Japan, other Asian nations have approached it for more government aid, loans, and trade credits. Their attitude toward Japan will improve if they receive more. On the other hand, the fear of economic domination by Japan is strong because of the bitter experience of the last World War. My impression is that Asian nations are seeking a better relationship with Japan while trying to avoid Japanese hegemony.

Japan: An Asian Country That Knows Surprisingly Little About Asia

Obi: On the reverse tack, what are Japanese attitudes toward the United States, Europe and Asia?

Even with the recent awakening of interest in Japan, and greater dissemination of information about Japan overseas, it is difficult to erase muddled stereotypes and untruths that continue to influence foreign ideas about Japan. Japan's communications giant, KDD, has produced a rib-tickling television commercial highlighting some of the more common – and absurdly inaccurate – foreign visions of modern-day Japan. Above, some scenes from the commercial: (top) A "typical" Japanese family pays homage to the mighty god of rice before chopstick-ing down a boiled white breakfast, (bottom) a productivity-obsessed Japanese manager allows no nonsense as he surveys his diligent, computer-mesmerized work force.

Inoue: Japan has long looked at the U.S. as a teacher. I think there are two reasons for this. One is simply that America exerts a powerful influence on Japan in many fields. The other is that in order to become a member of the international community, we've had to learn the rules of international business from America. I think that long, energetic study has enabled us to discern the differences between America and Europe – even those between New England and Texas.

Araki: I agree with Professor Passin's opinion that Japan and America were foes, became friends, and are now rivals – a sentiment the Japanese share. When I lived in Brussels, I first realized a clear difference between Americans and Europeans. In general Americans are very open-minded, perhaps because their country is young. In America, I feel as though I can talk freely to anyone, anytime, anywhere, while in Europe I've the impression that an invitation is necessary for meeting someone, maybe because European countries are old and formal.

As for Asia, the Japanese are for the most part ignorant, despite the fact that they're Asians. The Japanese have long been exposed to and nurtured by European rationalism. Thus in some

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ways they're more European than Asian. Southeast Asians seem to sense this; they distrust the Japanese partly because of their dual nature.

Obi: I agree that we Japanese have little knowledge of Southeast Asia. But I also have the impression that Japan is misunderstood in myriad ways. Is Japan liable to misunderstanding?

Curtis: Japan isn't the only country that is misunderstood. All unfamiliar countries are misunderstood. But Japan is pivotal to the United States, and thus American misunderstanding of Japan is harmful to U.S. interests. Americans should understand Japan better than they do other countries. But most Americans have not studied Japan sufficiently. In the past the problem was that Americans knew too little about Japan — a problem which Americans admitted. Today the problem is that an increasing number of Americans believe they're Japan-hands when they're not. These self-styled experts have created misunderstandings about Japan. For example, they are responsible for the myth of "Japan Incorporated." Such myths are quite dangerous.

One more thing: Americans have historically regarded China as a romantic place, and thus even when they misunderstand it, their misunderstanding tends to be on the romantic side. However, as U.S.-Japan relations are based on extremely practical matters, American misunderstanding of Japan tends to be less innocuous.

Passin: What you're saying is that misunderstanding may lead to disaster in the case of the U.S. and Japan. I'm more optimistic. More and more Americans are visiting Japan or have Japanese friends. This trend should result in better mutual understanding.

Learning to Act in the Absence of Pressure

Obi: Various reciprocity bills have been introduced to Congress lately, and Japan seems to have overreacted to them.

Curran: The U.S. officials who formulated past U.S. policy regarding Japan were unfamiliar with the country. Most were China experts. That may have been one source of misunderstanding. Today, however, more and more Japan experts are entering the U.S. Government, though whether or not that is beneficial for Japan remains to be seen. A recent example is the new head of the U.S. Special Trade Representative Office. He speaks fluent Japanese and has written a book about the Japanese student movement. And now the Department of Commerce is planning to hire Japan experts.

But U.S. Government organs are not recruiting Japan experts for eliminating misunderstanding, but for "attacking" Japan. An effective attack is not possible without men familiar with the "enemy." In other words, the U.S. will use these experts' knowledge to negotiate more aggressively with Japan. This trend will probably increase in the future.

Which of the Following Animals Best Fit the Image of Japan?

1. Tiger	27%	(19%)
2. Peacock	24%	(36%)
3. Cat	21%	(12%)
4. Dog	16%	(14%)
5. Monkey	15%	(15%)
6. Mouse	13%	(12%)
7. Fox	11%	(4%)
8. Lion	8%	(7%)
9. Ant	7%	(3%)
10. Elephant	4%	(3%)
Don't know	23%	(28%)

Source: Gallup Poll/the *Sankei Shimbun*, 1982
Notes: (1) Unparenthesized figures are responses of the general public; parenthesized figures, of people well informed about Japan. This survey was conducted in the U.S.
(2) Two or more responses were possible.

Obi: How is Japan responding to this mounting pressure from the U.S. Government?

Inoue: Historically, Japan's political and economic policies have always been molded by outside pressure. This may be attributed to the indecisive nature of the Japanese, though I tend to feel that it's a manifestation of political wisdom. Japan is a country whose survival depends on maintaining good relations with the rest of the world, and bending to outside pressure is necessary for survival. Japan's present attitude toward bilateral trade friction appears to be reasonable and well-advised.

Curtis: Countries that feel outside pressure are usually small. It is imprudent for these countries to act in the absence of pressure; it's best for them to await external pressure. Japan's past policy of submitting to external pressure was prudent. But Japan is no longer a small country. It's assuming an extremely vital role in the international community, and its former policy of awaiting external pressure will bring it more harm than benefit. Today it should take the initiative in solving problems quickly and positively. If it fails to do so, insignificant problems may grow into serious ones. For example, economic problems may become political problems.

Past Liberal Democratic Party administrations, which did little without American prodding, never even formulated a clear defense policy. That was extremely wise. But continued failure to frame a defense policy will lead to friction over defense in this

Which Country or Countries Do You Trust the Most?

Japanese Respondents

	(%)	'81	'80	'79	'78
1. U.S.	49.6	(①)	①	①	(①)
2. U.K.	34.7	(③)	③	②	(③)
3. China	30.6	(②)	②	③	(②)
4. Switzerland	28.8	(④)	⑤	④	(④)
5. France	27.9	(⑦)	⑦	⑥	(⑧)
6. Canada	25.2	(⑥)	④	⑤	(⑤)
7. W. Germany	24.9	(⑤)	⑥	⑦	(⑥)
8. Australia	19.7	(⑧)	⑧	⑨	(⑨)
9. Brazil	15.0	(⑨)	⑨	⑧	(⑦)
10. Netherlands	10.8	(⑩)	⑩	⑩	(⑩)

American Respondents

	(%)	'81	'80	'79	'78
1. Canada	72.6	(①)	①	①	(①)
2. U.K.	54.2	(②)	②	③	(③)
3. Australia	41.9	(③)	③	②	(②)
4. Switzerland	36.5	(④)	④	④	(④)
5. Sweden	30.5	(⑤)	⑦	⑤	(⑤)
6. France	22.3	(⑥)	⑥	⑥	(⑥)
7. W. Germany	21.0	(⑦)	⑤	⑦	(⑧)
8. Norway	20.0	(⑨)	⑨	⑧	(⑦)
9. Netherlands	18.8	(⑩)	⑩	⑩	(⑨)
10. Japan	18.0	(⑥)	⑧	⑨	(⑩)

Source: Gallup Poll/the *Yomiuri Shimbun*, 1982
Notes: 1. Numbers in parentheses denote order in 1978–81.
2. Two or more responses were possible.

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decade. While I don't think that Japan's increasing its defense expenditure from 1 to 2 percent of its GNP is a good idea, I do think that it's necessary for Japan to formulate a clear defense policy. Inaction will result in greater external pressure and extra demands, which, in turn, may develop into still other political problems that will sour relations between the two countries.

Heavy Reliance on Exports of Processed Goods

Obi: I think that different interpretations of the word "fairness" are frustrating bilateral communication.

Araki: Let's look at bilateral trade friction. Elimination of some sources of friction is possible through bilateral discussion, while the elimination of others requires unilateral action by Japan. The former aspects should be comprehensively discussed by members of Congress and the Diet. Solution of the latter aspects requires that Japan frankly admit and correct its faults.

One thing that should not be overlooked is that more than 100 million people live on the tiny Japanese archipelago and almost all of the labor force works in manufacturing industries. Japan sorely lacks raw materials. Thus it must import them and export processed goods. The fact that so many people with a similar educational background and social status are concentrated in such a small area gives Japan an advantage in manufacturing high quality products at low cost. A further advantage is that Japan is virtually a unified market because of the proximity of its towns and cities. (See map.) In short, Japan's economic strength is due more to favorable geographical conditions than to the diligence of its people. What Japan must make other nations understand is that it is a country with few natural resources that must manufacture and export to survive.

Even in America, Japanese are making an all-out effort to sell their goods. In fact, to do business there they must learn English. But citizens of resource rich countries like Australia can choose from a wide variety of livelihoods — they don't have to become salesmen. Japan would like other peoples to understand its situation. This does not mean that the Japanese are entitled to destroy other countries' industries. At present, Japan must avoid "flooding" other countries with exports, and work toward the elimination of trade friction.

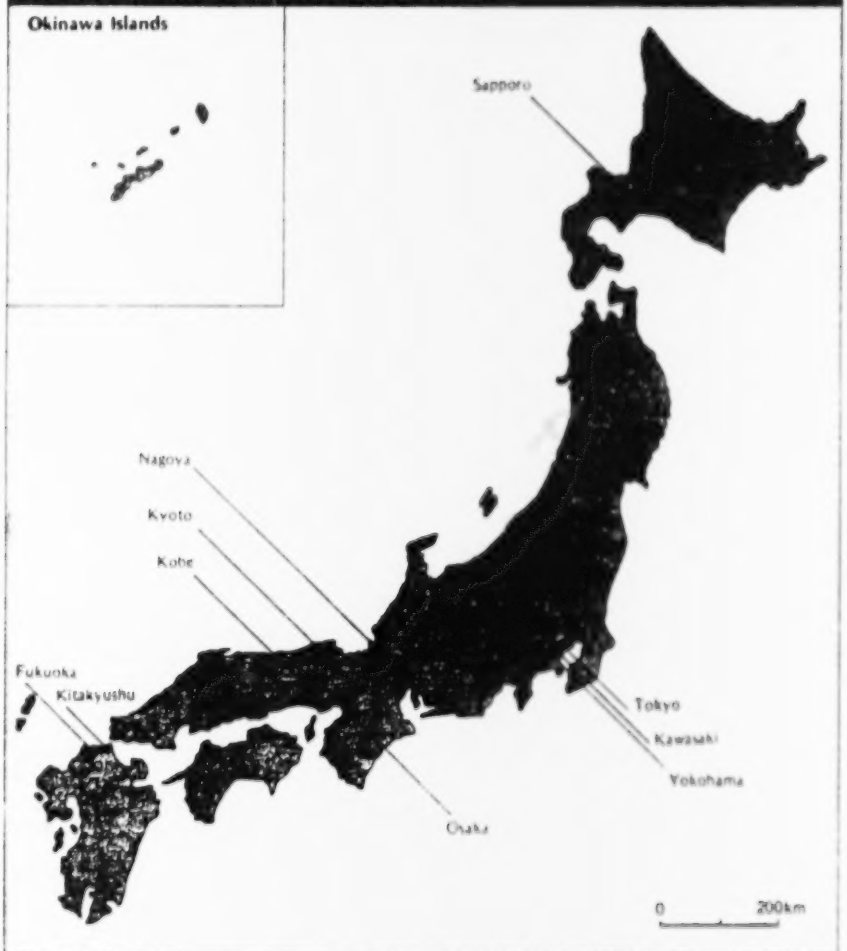
Obi: It is said that Japanese are more internationally minded than Americans. It's also said that because America is an amalgam of different peoples, its citizens are unconscious of their collective "internationalness."

Curran: Americans differ widely in the degree to which they are international. However, generalizations can be made about different areas of the country. For example, Americans in the Midwest states, like Iowa and Kansas, have fewer opportunities to meet foreigners or to view TV programs introducing foreign countries. Consequently, these Americans have comparatively little knowledge of international affairs, and a weaker international consciousness. On the other hand, Americans on the East Coast seem to have an international sensibility similar to Europeans'.

Obi: What must be done to eliminate the shortage of information concerning Japan and so-called perception gaps?

Inoue: Let's take the case of South Korea. Many South Koreans educated in America are assuming major advisory positions in their government, thereby enhancing communication between their country and America. South Koreans are trying hard to promote communication. Documents prepared by their banks have a reputation among Americans for good English and lucidity while those prepared by Japanese banks are characteristically Japanese and therefore difficult to understand, perhaps because of the

Cities in Japan With 300,000 or More Inhabitants



Source: A 1983 charted survey of Japan.
Note: Names appear for cities of 1 million or more inhabitants.

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Affluent East meets affluent West. Japanese tourists mill outside Louis Vuitton in Paris.

innate Japanese desire to include native elements. The tendency to stamp things with the national mark is common in countries with long, enduring cultures, like China. If Japan is to play a greater role in the international community, it must find a way to make itself less inscrutable to foreigners.

Creating a Positive Image

Obi: Americans frequently speak of the necessity of Japan's taking dramatic measures. Just what are these "dramatic measures"?

Curtis: Americans think that the Japanese must choose these themselves. What Americans are speaking of are bold, decisive measures, as opposed to long-term, step-by-step ones. The problem with the step-by-step approach is less the lack of impact than the bad image created.

The current problem of cheap yen is a case in point. Rather than waiting for U.S. interest rates to drop, Japan should take immediate positive action. In other words, the expression "dramatic measures" is used by Americans to mean concrete, positive action by Japan, as a member of the world community, to solve problems. To many Americans, the Japanese seem to think that their country is not a part of the world, and their perception of "internationalism" seems to emphasize only how to deal with the outside world. The Japanese interpretation of "internationalism" is different from the original meaning of the word, which implied that on the basis of a strong awareness of its membership in the world community, a nation should take the initiative in solving common problems.

Obi: What must Japan do to improve its image abroad?

Passin: Starting to look at things impartially would be a good beginning. The Japanese aren't very good at that. In America, Japan is viewed as a country that doesn't act until it's pressured. It is important for Japan to start acting voluntarily before outside pressure builds.

Araki: History has taught us that it takes a long time for people who speak different languages to come to understand each other. But it is also true that the rapid development of transportation and communications have made achievement of that goal easier. I feel that the time is ripe for Japan to begin playing a vigorous role in the international community in order to make itself better understood there. Japan gathers a large amount of news from overseas, but it's doubtful that it makes an equivalent effort in trying to inform the rest of the world about itself. Japan must conduct PR activities continuously, not only when problems occur.

Obi: Japan is reportedly poor at PR.

Curtis: On the contrary, I think that Japanese private enterprise is very skillful at PR. Toyota and Nissan, for example, are very good. Only the Japanese Government is lagging in this area, perhaps because it still does not regard PR as one of its responsibilities. Government officials still seem to pay much attention to collecting external information but make light of informing foreigners about Japan. This situation is improving, though now the government tends to overreact by providing too much information. For example, within a week of placing a request with the Japanese government, my desk was covered with English-language materials. Who can read that much? How can one decide which materials are important? Regrettably, I had to throw most of the materials in the trash. In time the quantity should decrease and the quality should improve. There are many things that Japan must do quickly, and its attempt to do them in a short time is causing additional problems. That Japan needs time should be kept in mind.

Passin: I think all governments — at least all democratic governments, including the U.S. and the Western European nations — are poor at PR. Good PR requires keeping a low profile. But governments do too much directly, and their efforts smell of PR and invite a hostile reaction. Governments should leave PR to private firms because they're the experts. Increasing the exchange of information among the private sectors of different countries is important.

Obi: In concluding this discussion, I'd like to say that everyone here has pointed out that Japan must make a continuous effort to improve its relations with the rest of the world. Thank you, gentlemen, for your valuable time and opinions.

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No. 13 November 1983 KKC Brief KEIZAI KOHO CENTER
Japan Institute for Social and Economic Affairs

Toward Strengthening and Preserving the Free Trade System

Keidanren Urges Further Market Opening, International Cooperation

Japan has taken various steps to open its market wider over the past several years. These steps have been welcomed both in Japan and abroad. Nevertheless, trade friction and protectionist sentiment in some countries continue to threaten the global free trade system. A proposal made public by Keidanren (Japan Federation of Economic Organizations) on September 27, 1983, focuses on ways to alleviate trade imbalances between Japan and its trading partners and pursue orderly trade. For Japan's part, further reduction of tariffs, import promotion measures that treat foreign products with positive discrimination, and liberalization of the financial and capital markets are steps in the right direction. Cooperation with less-developed countries and mutual understanding among nations are also desirable if the General Agreement on Tariffs and Trade is to remain in force.

Below is an English version of Keidanren's proposal.

Introduction

In April 1982 we released a position paper titled "For Better External Economic Relations with Our Trading Partners," proposing to both the domestic and the foreign audience a number of measures for opening Japan's market as well as for promoting international cooperation. We also released a statement titled "A New Look at Trade-Related Regulatory Administration" in December 1982, in which we presented to the authorities concerned our basic ideas regarding Japan's export and import licensing and approval system and made concrete suggestions for a drastic simplification of this system. The administration and the ruling party have responded positively to these opinions and proposals, and a series of market-opening measures has since been put into effect. These developments have been warmly welcomed both at home and abroad.

Nevertheless, the international environment surrounding the Japanese economy is still quite severe. Signs of economic recovery are in evidence in some countries, but serious unemployment problems continue to trouble others, threatening to further politicize trade friction between Japan and these countries, particularly those of the West. Unless we take prompt action to counter this trend, the basic structure of the free trade system could be thrown into jeopardy.

The protectionist tendencies found in some Western countries spring from the global economic recession and high unemployment. Economic activities throughout the world, and especially in the industrial nations, must resume firm expansion if these tendencies are to be kept under control. Even if a business recovery is under way, however, it is doubtful that unemployment will rapidly abate or that trade imbalances will disappear in an instant. The fact is that today as much as 30% to 40% of Japan's entire exports to the United States and Western Europe come under such controls as import restrictions or voluntary export restraints.

The world economy owes much of its postwar prosperity to the free trade system practiced under the General Agreement on Tariffs and Trade. If countries turn to protectionist measures as an easy way of solving their unemployment problems and bilateral trade imbalances, the world economy will be forced to seek equilibrium at a lower level. If this situation is left unattended, the trading order will be headed for a grave crisis.

We strongly hope that, in line with the agreement reached at the Williamsburg summit, our trading partners in the West and elsewhere will remove

import-restrictive measures and refrain from resorting to such policies in the future. Acting in tandem with them, at this critical juncture Japan must proceed in further opening its own market in a thoroughgoing manner. It must also step up international cooperation in every field with a view to preserving and strengthening the free trade system.

Based on such thinking and determined to maintain the free trade system, we present the following proposals.

Total Opening of the Market

Further reduction of tariffs, liberalization of residual import restrictions

Since last year Japan has implemented a series of three comprehensive programs aimed at opening its market by cutting tariffs and other means. These steps have been welcomed by Japan's trading partners. As a result of such actions, Japan's average level of tariffs has been reduced to the lowest among the industrialized nations. With a view to giving further impetus to free trade, we propose that Japan take the initiative in calling a new round of GATT negotiations of which the ultimate objective will be the total elimination of tariffs of all kinds. In this context Japan must at least consider lowering the relatively high tariffs it still imposes on a few items and abolishing tariffs on imports of machinery and equipment, two items with relatively high export ratios. Such steps would serve to improve Japan's relations with its trading partners.

Abolition of the residual import restrictions applying to beef, oranges, and other items should be given top priority, with complete liberalization to be achieved within a time limit. However, we suggest that rice and wheat, which are the staples of the Japanese diet, continue to be exempted from trade liberalization. Where immediate liberalization is difficult, import quotas should be expanded as much as possible as a temporary measure.

Stepping up of import promotion measures

Over the years Japan has taken a variety of measures to encourage imports. These have included the establishment of the Manufactured Imports Promotion Organization (MIPRO) and the dispatch of numerous import promotion missions. Yet the current situation requires further intensification of effort in this area. We therefore propose that measures be taken to expand and improve the import financing system and preferential tax measures for importers. Assuming that foreign companies are willing to step up their efforts to expand exports to Japan, the Japanese government should consider positive discriminatory measures to make it easier for foreign companies to do business in Japan. For example, it should facilitate the issuance of long-term visas to people coming to Japan for the purpose of concluding export deals and make it easier for foreign companies to establish offices in Japan and to import product samples.

The principle of equal opportunity for domestic and foreign businesses should be thoroughly made known to the Japanese authorities concerned and enforced in practice. This includes giving equal opportunity to foreign businesses in the area of procurement by the central government and semigovernmental bodies, as well as by local governments.

Internationalization of the financial and capital markets

This country must actively promote the liberalization and internationalization of its financial and capital markets. Prompt action should be taken to liberalize interest rates, to completely liberalize direct investment, to implement measures allowing increased flexibility in the issuing of yen-denominated foreign bonds (especially those issued by private businesses), and to remove the "principle of actual demand" in foreign exchange transactions, all of which have been under study for some time. Also, active consideration should be given to the proposed establishment of an offshore market and a yen-denominated banker's acceptance market.

Today Japan is being increasingly counted on to play the role of a capital exporter. If it is to meet this rising expectation, it must accelerate the liberalization and internationalization of its financial and capital markets. Increased international confidence in the yen and the yen's smooth circulation in international financial markets, which may be expected as a result of such steps, would contribute to the stabilization of the yen's exchange rate. It is our responsibility as a major economic power to internationalize the yen, even if there are costs to be borne.

Further promotion of administrative reform in the area of international transactions

We appreciate the fact that since last year the government has taken epochal steps, including a comprehensive revision of relevant laws and regulations, to improve product standards and certification procedures for imports. However, from the standpoint of the need for a smaller, more effi-

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cient government, there is still much room for improvement. It is essential that the regulatory regime in the field of international transactions be continuously reviewed. The idea of the government's controlling and overseeing international transactions must be fundamentally reconsidered; the government should limit its role in this area to one of coordinating and complementing private business activities. Efforts must be continued to achieve further simplification and speeding up of regulatory procedures in this field.

Orderly Trade

We are opposed to trading nations' having easy recourse to restrictive measures, such as voluntary restraints on exports, which run counter to GATT's fundamental principles of free trade, multilateralism, and nondiscrimination. When, however, such developments as a rapid increase in exports of a particular commodity threaten a major industry of the importing country, the exporting country may be compelled to apply measures like voluntary export restraints for a brief period of time to forestall the politicization and escalation of the issue. It is clear, nonetheless, that voluntary restrictions should be nothing more than an exceptional, one-time measure, useful only as a safety valve to ease occasional strains and protect the free trade system over the long run. Once such a measure is put in place, its removal is no easy task, so its duration should be defined clearly beforehand. At the same time, the importing country should be obligated to carry out industrial adjustment, and GATT should be informed of this arrangement.

Trade friction has often escalated into a political issue without adequate examination having been given to its causes, thereby triggering government intervention. In this connection we believe that before final action is taken on the government level, international consultations should be held between the private industries concerned in both the exporting and importing countries. The governments of Japan and other countries will find it necessary to foster conditions enabling adequate communication on the industry level while remaining within the scope of antimonopoly legislation (for example, by improving the application of the Antimonopoly Law).

A rapid increase in imports aided by such unfair trading practices as dumping and government subsidies could disrupt the Japanese market and injure domestic industries. Therefore it is urgent that domestic procedures be drawn up to deal with such contingencies. This would involve the prompt and impartial enforcement of antidumping tariffs and countervailing duties in line with GATT rules.

Promotion of International Cooperation

Cooperation in stabilizing exchange rates

Erratic swings in foreign exchange rates constitute a serious impediment to sound economic activity. Also, the trend toward appreciation of the dollar, chiefly induced by high U.S. interest rates, is a major factor responsible for the current Japan-U.S. trade imbalance.

Improvement of the situation requires that the United States and other countries study appropriate countermeasures without delay, that major industrial countries' economic policies be more closely coordinated, and that these countries step up joint intervention in the foreign exchange market.

Industrial cooperation

Industrial cooperation in the form of direct investment, technological collaboration, joint research and development activities, and cooperation in third-country markets can contribute significantly to the revitalization of the global economy. Special emphasis should be placed on encouraging two-way flows of direct investment that involve the transfer of managerial resources, in addition to technology and capital, and that promise to result in closer ties between the parties concerned.

To help promote such cooperation between Japanese private businesses and the private businesses of its trading partners, the government should foster conditions conducive to such projects. Close and active teamwork between the government and private organizations is extremely important to the efficient promotion of private-level industrial cooperation. From this standpoint, the Vredeling proposal now under consideration in the EC region, the unitary tax system applied in parts of the United States, and the local content measures being considered in the United States and Western Europe pose serious impediments to foreign direct investment.

In the meantime, technical and financial cooperation is becoming increasingly desirable to both the developing and the advanced countries. In the light of such developments, our government should apply supportive measures in the area of financial and insurance systems. For example, technical and financial cooperation in building high-speed railways and in developing new sources of energy is certain to be instrumental in establishing closer ties with host countries.

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Economic cooperation

Japan faces a greater need than other industrial nations to expand its economic cooperation with the developing countries. This is because of Japan's greater interdependence with the LDCs.

The debt problem of the third world, if mishandled, could throw the global economy into chaos. For the time being, governments, in collaboration with international financial institutions and private banks, should endeavor to devise financial arrangements that would prevent events from following the worst possible scenario. At the same time, efforts must be made to expand developing countries' export opportunities, for this constitutes the road to a fundamental solution of their debt problems. In particular, the expertise possessed by Japan's large trading companies in multinational transactions should be fully utilized to promote exports by the LDCs.

Japan is now trying to fulfill its pledge of doubling its dollar-denominated amount of official development assistance in the early 1980s from what it was in the late 1970s. The prospects for attaining this new medium-term ODA goal have now become bleak due to a number of developments, including delays in other nations' increasing their capital contributions to international organizations and the depreciation of the yen. Despite such adverse developments, serious efforts must be continued to meet that goal. As for the so-called newly industrializing countries, emphasis should be placed on private-sector economic cooperation to assist in their further economic development so that they may become an active source of support to the GATT regime together with like-minded industrial nations.

Promotion of Mutual Understanding and Personal Exchanges

Direct dialogue concerning the current problems and future trends of technology development has already begun between some industrial sectors in Japan and its trading partners, and both sides are benefiting greatly. Exchanges of this kind will need to be expanded further in the future. Countries of the Pacific region are full of dynamism and hold major promise of growing into vigorous proponents of free trade in the twenty-first century. More ways to expand exchanges and cooperative relationships with them need to be seriously explored.

Today, a large number of Japanese business people reside overseas. Members of the Japanese business community should find out how they can best contribute to mutual understanding as private ambassadors to their host societies. Also, more needs to be done to expand private businesses' educational programs for foreign trainees.

In the meantime, expansion of international exchanges should be facilitated by taking steps toward reciprocal acceptance of professional statuses between Japan and other countries. This would include allowing foreign lawyers to open offices and practice law in Japan.

Apart from measures in economic-related areas, there should also be dramatic expansion and improvement in international exchange programs for professors and students in the fields of modern society and culture. Receiving an increased number of foreign students, however, entails the need for institutional reforms. Such reforms would include easing degree requirements, expanding and upgrading the scholarship system, and accepting foreign universities' credits.

KEIDANREN (Japan Federation of Economic Organizations) is a private nonprofit economic organization representing all branches of economic activity in Japan. While maintaining close contact with economic sectors at home and abroad, Keidanren endeavors not only to find practical solutions to economic problems but also to contribute to the sound development of the economies of Japan and other countries around the world. As of October 1983, Keidanren's membership numbered 116 associations and 825 corporations. The association members include trade associations and regional economic organizations. The corporate members are leading Japanese enterprises and foreign companies operating in Japan.

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KKC BRIEF is an occasional publication of the Keizai Koho Center. Issued several times a year, it provides, in a concise format, news on the activities and views of Keidanren (Japan Federation of Economic Organizations) and other private Japanese economic organizations, as well as information on particular industries and the Japanese economy in general.

KEIZAI KOHO CENTER (Japan Institute for Social and Economic Affairs) is a private nonprofit organization that works in cooperation with Keidanren to provide information on the Japanese economy.
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Printed in Japan

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For Better External Economic Relations with Our Trading Partners

On April 27, 1982, Keidanren announced its views on the need for strong leadership by the Japanese government in adopting effective measures to open the Japanese market further and thereby preserve the world's free trade system. A visit to seven EC countries last November by a Keidanren mission headed by Chairman Yoshihiro Inayama and a subsequent visit to the United States by select officials of the federation made Keidanren keenly aware of the mounting tension in Japan's trade relations with the European Community and the United States. On December 1, 1981, Keidanren urged the government to implement timely measures, both comprehensive and specific, to ensure harmonious external economic relations. The views announced on April 27 advocate the need for Japan to redefine its international role and to make positive contributions to peaceful world development.

Below is a translation of the April 27 statement.

Our economy, which now accounts for 10% of the world GNP, has an important international responsibility for the stable development of the world economy.

Whether or not we can strive, in cooperation with other nations on the basis of a shared perception of common goals, to solve problems in international economic relations in a peaceful manner will critically set the future course of Japan as well as that of the world economy.

While there has been a growing expectation on the part of our trading partners as to the new international role that Japan should play, there have been mounting criticism and intensified dissatisfaction expressed against Japan by our trading partners, particularly the United States and the European countries.

These complaints include such various points as growing trade imbalances, low ratio of manufactured imports, restrictive import measures, lack of transparency in our economic system, rapid increase of Japanese exports of certain product lines in specific markets, and difficulties in understanding Japanese business practices, etc.

In principle, the issues regarding the international balance of payments have to be discussed on the bases of current balance or basic balance, rather than on the trade balance only. They should also be considered not bilaterally, but on a multilateral basis, and we cannot wholly accept the charge that the Japanese market is more closed than other foreign markets. Yet there is no denying the fact that recently these economic issues have been increasingly related to complicated domestic politics in each country. The seriousness of politicization is such that, if left unchecked, the rise of protectionism would rapidly spread all over the world and may threaten to shake the fundamental concept of free trade and the free enterprise system.

As a nation that upholds the principle of free trade as a national policy, the course for Japan is to pursue a constructive and positive, rather than defensive, posture in resolving external economic frictions.

It is incumbent, therefore, upon us to clearly perceive the new role Japan should play in the international community. The very efforts to maintain and strengthen the free trade system and to build stable relationships of economic interdependence must be Japan's contribution to the maintenance of a peaceful world.

In pursuance of the purposes stated above, it is urgent to take the initiative to implement the measures listed below to the end of effectively improving our economic relations with our trading partners.

Although these measures may be accompanied by temporary pain, we believe strongly that their implementation will in the long run be beneficial to our national economy.

We therefore strongly urge the government leaders concerned to demonstrate powerful leadership in implementing these measures.

1. Measures for Widening Market Access
   (1) Further reduction of tariffs and non-tariff barriers.
      (a) Promotion of liberalization of residual import quotas
      Residual I.Q. (27 items) should be lifted as soon as possible.
      Where immediate eliminations are deemed to be difficult, we believe that the expansion of the quotas, as an interim measure, should be carried out, and the time schedule for step-by-step liberalization and the domestic adjustment measures (such as introduction of deficiency payment system, etc.) should be established.
      In implementing the reduction in import tariffs on processed agricultural products, due consideration should be given to lower the costs of their raw materials.

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(b) Reduction of tariffs.
Tariffs on technologically advanced products (computers, machine tools, etc.) should be reduced on a reciprocal basis or even unilaterally if domestic adjustment measures are taken as necessary.
Tariffs on symbolic items (brandy, tobacco, etc.) should be lowered unilaterally. Where necessary, the tariffs on raw materials for these products should be reduced.

(c) Sales of foreign tobacco.
Since tobacco has been often identified as the most symbolic items for the "closedness" of Japanese market, foreign tobacco should be treated equally as domestic ones, permitting, for instance, to let retailers, as they wish, to sell foreign tobacco.

(2) Effective implementation of administrative reform in the field of external economic relations.

(a) Drastic simplification of complex approval system (export-import inspection procedures, etc.).

(b) Substantial reduction of administrative intervention in the fields of banking, insurance, securities, data communication, transportation, etc.

2. Measures for Promotion of International Cooperation

(1) Maintenance of harmonious export behavior.
In the immediate short run, orderly and prudent export behavior on certain product lines should be maintained. From the long-term point of view, we should lead the efforts to make the best and effective use of GATT system for resolving trade disputes among the advanced countries.

(2) Positive initiatives should be taken for the international cooperation in stabilizing the movement of exchange rates (especially cheap yen problem caused by U.S. high interest policy).

(3) Positive cooperation should be made in an attempt to establish international rules on trade in services and investments.

(4) Promotion of industrial cooperation and energy cooperation.

(a) Promotion of joint research and development in advanced technology areas with the U.S. and European countries.

(b) Further strengthening of measures for encouraging outgoing and incoming direct investment.

(c) In view of the spirit of promoting free trade system, various export bans should be eliminated so that energy trade should be promoted (e.g., export of Alaskan oil to Japan).

(5) Promotion of economic cooperation.
New mid-term target for increasing ODA should be honored, and to this end existing limitations in eligible recipient countries should be relaxed (to include OPEC as well as middle income countries) and eligible projects should be widened. Also the rigid principle of "request base," requiring the submission of official written request should be relaxed and efficient execution of aid projects by further delegating authorities to the implementing organizations should be carried out.

(6) Cooperation for a deeper understanding by foreign countries of our trade and business practices.
Measures should be taken to help foreigners better understand our trade and business practices rooted in our unique culture and tradition thereby reducing the misunderstandings regarding the alleged preference for domestic products.

KEIDANREN (Japan Federation of Economic Organizations) is a private nonprofit economic organization representing all branches of economic activity in Japan. While maintaining close contact with economic sectors at home and abroad, Keidanren endeavors not only to find practical solutions to economic problems but also contributes to the sound development of the economies of Japan and other countries around the world. As of April 1982, Keidanren's membership numbered 110 association members and 830 corporations. The association members include trade associations and regional economic organizations. The corporate members are leading Japanese enterprises and foreign companies operating in Japan.

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EC Calls For Japan To Step Up Imports

Mainichi Daily News
Wednesday, October 19, 1983

–Increase Of ¥ Value Urged Also–

LUXEMBOURG (UPI) — Faced with a growing trade deficit with Japan, the European Community Monday called on the Japanese government to open up its markets to imports.

It also said the value of the yen should be increased to better reflect the strength of the Japanese economy.

Community foreign ministers acknowledged the Japanese government had taken measures to reduce some of the exisiting trade barriers.

But the Council of Ministers "was not convinced that such measures were by themselves likely to prove of early, tangible and significant benefit to Community exporters," a statement said.

"Measures which could result in a massive and visible increase of manufactured imports into Japan have not materialized," the minister said.

The Community's trade deficit with Japan stood at around $10 billion last year and it may reach $12 billion in 1983.

The ministers said vigorous efforts should be pursued to persuade the Japanese authorities to open up their markets far more than they have done so far.

The Japanese government should take measures "which would lead to a substantial shift in favor of buying manufactured and processed products from abroad," they said.

The European Commission informed the ministers it intended to start discussions with the Japanese authorities to obtain an effective moderation of Japanese exports of sensitive products to the community in 1984.

The Commission earlier this year already asked the Japanese why their exports of color television sets, automobiles, casette tape-recorders and other such items had increased in spite of pledges to tone down their export drive.

The Commission has set up a monitoring system on imports of sensitive products from Japan and said it would reinforce this if necessary.

A majority of ministers endorsed in principle a commission proposal to double the import tariff on digital audiodiscs to 19 percent conference officials said.

The ministers repeated their earlier conclusion "that the yen should better retect the fundamental strength of the Japanese economy," the statement said.

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Currently Speaking

Japan Advised To Pay Equal Attention To EC Demands

By Tetsuo Komatsu

Against the background of the expectation that Japan's trade surplus this year will exceed $20 billion and record an all-time high, the United States and European countries are intensifying their economic demands on Japan, refueling trade friction between Japan and those countries.

At a time when West German Chancellor Helmut Kohl and U.S. President Ronald Reagan are scheduled to visit Japan between the end of October and the middle of November, the Japanese Government hopes to cope with their demands by coming up with an economic package calling for expansion of domestic demand, promotion of imports, liberalization of the Japanese market and harmonization of economic cooperation.

But their demands have been becoming stronger. U.S. Secretary of Commerce Malcolm Baldrige, for instance, has said that if Reagan's visit to Japan fails to produce a concrete result on the trade friction issue, it would invite a political crisis for the president.

Baldrige has thus demanded Japan's unilateral concessions and efforts in such individual issues as improvement of the yen's depreciation against the dollar, prolongation of Japan's voluntary restrictions on automobile exports to the United States, liberalization of imports of farm products, including beef and oranges, purchase of man-made satellites, promotion of procurements by the Japanese Government, including those by the Nippon Telegraph and Telephone Public Corporation (NTT), reduction of tariffs and liberalization of the capital market.

The European Community (EC), on the other hand, held a meeting of foreign ministerial directors on October 17 to discuss its trade problems with Japan. In the meeting, EC stressed that Japan's market-opening measures are still insufficient, agreeing to urge Japan to further open up its market and drastically increase its imports of manufactured products.

As for individual issues, the EC meeting agreed (1) that it, in principle, favors a raise in the tariffs on digital audio discs (DADs), (2) that EC will study multinational negotiations in accordance with Sub-Section 2, Section 23 of the General Agreement on Tariffs and Trade (GATT) at the next foreign ministerial directors' meeting to be held in November and (3) that the yen is undervalued because the exchange rate of the Japanese currency does not reflect the actual strength of the Japanese economy.

The agreements at the EC meeting on October 17 proved to be less severe than expected, but this does not mean that EC's dissatisfaction with and demands on Japan have weakened, except that EC's demands are abstract and dispassionate.

EC's demands, which call on Japan to voluntarily take specific measures to increase its imports, however, require Japan to change its way of thinking in its trade policies with EC, while the American demands enable Japan to cope with them individually—adjustments toward a solution by ministeries and agencies as well as industries concerned.

EC fears that Japan will subordinate EC to the United States because Japan is busy making adjustments in its relations with the U.S. over farm products, automobiles and other items before Reagan's visit in November.

EC apparently aimed at showing its importance to Japan by making far more dispassionate demands than those by the U.S.

Japan will find it more difficult to cope with EC than with the U.S. It is important for Japan to listen to EC's demands in earnest and sincerely carry out concrete measures for liberalizing the Japanese market and increasing its imports from EC.

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MAINICHI DAILY NEWS
OCTOBER 19, 1983

Table 24: Japan's Exports by Country, 1978-1982

(in millions of dollars, f.o.b. value basis)

	1978	1979	1980	1981	1982
Total Exports	$97,543	$103,032	$129,807	$152,030	$138,831
Developed Countries	45,674	48,759	61,172	73,668	67,995
United States	24,915	26,403	31,367	38,609	36,330
Canada	1,871	1,738	2,437	3,399	2,861
Western Europe	14,797	16,434	21,503	23,748	21,640
United Kingdom	2,341	3,097	3,782	4,789	4,813
Netherlands	1,599	1,671	2,061	1,902	1,661
Belgium	962	1,087	1,419	1,436	1,155
France	1,103	1,395	2,021	2,222	2,318
West Germany	3,654	4,266	5,756	5,968	5,018
European Community	11,105	12,685	16,650	18,894	17,064
Switzerland	663	749	1,158	1,146	1,017
Australia	2,692	2,607	3,389	4,779	4,581
New Zealand	419	585	676	912	929
South Africa	979	991	1,800	2,222	1,655
Developing Countries	45,219	46,889	59,480	68,848	62,435
Latin America	6,621	6,555	8,918	10,516	9,086
Mexico	639	841	1,224	1,705	976
Panama	1,446	895	1,416	2,210	2,925
Venezuela	771	785	835	925	1,179
Brazil	1,253	1,125	1,115	1,368	1,043
Southeast Asia	23,102	26,128	30,910	34,426	31,873
Korea	6,003	6,247	5,368	5,658	4,881
Taiwan	3,585	4,337	5,146	5,405	4,255
Hong Kong	3,088	3,329	4,761	5,311	4,718
Thailand	1,538	1,714	1,916	2,251	1,907
Singapore	2,325	2,679	3,911	4,468	4,373
Malaysia	1,357	1,507	2,061	2,424	2,502
Brunei	50	76	88	93	145
Philippines	1,546	1,622	1,683	1,928	1,803
Indonesia	2,095	3,134	3,458	4,123	4,261
India	730	780	915	1,197	1,408
Middle East and North Africa	10,745	10,735	14,159	17,232	16,946
Iran	2,691	925	1,530	1,486	935
Iraq	952	1,609	2,169	3,026	2,755
Saudi Arabia	3,254	3,829	4,856	5,876	6,621
Kuwait	774	886	1,223	1,648	1,790
United Arab Emirates	1,015	1,045	1,356	1,494	1,493
Subsaharan Africa	4,443	3,147	4,886	5,760	4,168
Liberia	1,666	931	1,416	1,690	1,009
Nigeria	953	807	1,494	2,159	1,209
Communist Countries	6,650	7,383	9,156	9,514	8,401
China	3,648	4,698	5,678	5,696	4,511
U.S.S.R.	2,502	2,462	2,778	3,153	3,890

Source: Ministry of Finance

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Table 25: Japan's Imports by Country, 1978-1982

(in millions of dollars, f.o.b. value basis)

	1978	1979	1980	1981	1982
Total Imports	$79,343	$110,672	$140,528	$143,290	$131,931
Developed Countries	33,050	43,044	49,120	51,336	48,428
United States	14,790	20,431	24,408	25,297	24,179
Canada	3,191	4,105	4,724	4,464	4,441
Western Europe	8,089	10,106	10,437	11,541	10,149
United Kingdom	1,379	1,681	1,954	2,695	1,874
Netherlands	318	419	380	427	347
Belgium	316	381	372	337	338
France	754	1,078	1,296	1,171	1,215
West Germany	1,998	2,584	2,501	2,429	2,355
European Community	6,072	7,581	7,842	8,552	7,560
Switzerland	986	1,033	1,077	1,542	1,233
Australia	5,300	6,298	6,982	7,419	6,961
New Zealand	639	805	828	887	858
South Africa	1,042	1,299	1,741	1,728	1,840
Developing Countries	42,429	62,234	84,733	84,223	76,069
Latin America	3,047	4,517	5,700	6,669	6,268
Mexico	356	483	934	1,437	1,522
Panama	86	179	61	131	107
Venezuela	50	142	691	912	723
Brazil	787	1,240	1,561	1,579	1,603
Southeast Asia	17,294	26,195	31,751	31,930	29,985
Korea	2,591	3,359	2,996	3,389	3,254
Taiwan	1,750	2,476	2,293	2,523	2,443
Hong Kong	498	664	569	669	622
Thailand	843	1,169	1,119	1,061	1,041
Singapore	869	1,473	1,507	1,944	1,826
Malaysia	1,900	3,257	3,471	2,927	3,010
Brunei	1,394	1,891	3,245	2,908	2,636
Philippines	1,058	1,583	1,951	1,731	1,576
Indonesia	5,247	8,794	13,167	13,305	12,005
India	793	1,053	1,014	1,057	1,122
Middle East and North Africa	20,777	29,377	44,500	42,670	37,764
Iran	4,244	4,271	4,101	1,920	2,567
Iraq	777	1,816	4,339	934	780
Saudi Arabia	8,450	12,134	19,538	21,483	20,528
Kuwait	2,482	4,414	3,458	3,609	1,627
United Arab Emirates	2,622	3,633	8,190	8,836	7,983
Subsaharan Africa	965	1,629	2,139	2,405	1,610
Liberia	191	425	338	312	166
Nigeria	8	43	120	340	8
Communist Countries	3,862	5,392	6,669	7,724	7,431
China	2,030	2,955	4,323	5,292	5,352
U.S.S.R.	1,442	1,911	1,860	2,021	1,682

Source: Ministry of Finance

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An Expanding International Role

Japan in International Business

Masaya Miyoshi
Managing Director
Keidanren (Federation of Economic Organizations)

Delivered at The Royal Institute of International Affairs, London, October 28, 1982

AGAINST a backdrop of serious worldwide recession, criticisms continue to be directed at Japan over trade problems without any letup. Intensified pressures have come since about a year ago for a wider opening of the Japanese market—most notably from the United States and Western Europe—as if in a well-coordinated campaign.

Unlike those of the past, the recent spell of trade friction seems to have no clear focus; the range of criticism often extends to the Japanese society and economy as a whole and is not limited to some specific trade items or areas.

This is an indication that grievances felt by our trading partners have deeper roots and more complex aspects than generally assumed. Trade friction is generated more or less directly by (1) the growth of trade imbalances, (2) a rapid increase in Japanese exports of some specific products (for example, automobiles, electric appliances, office equipment, machine tools), (3) the unique difficulty of exporting to Japan as perceived by Western businesses, and (4) barriers allegedly existing in the fields of currency and investment.

Also, trade friction springs from more basic underlying causes and conditions. We may cite as examples the prolonged stagnation in economic activity in the West (recession and increased unemployment), Japan's coming closer to a parity with the U.S. on the relative scale of economic strength, a near equivalence in industrial competitiveness having been reached among the trilateral regions, the declining political governability in the Western countries, the impact of domestic politics (e.g., the approaching mid-term elections in the U.S.) and a rise in the level of international tension resulting in the linkage of trade and defense issues.

Furthermore, it is to be pointed out that trade problems between Japan and its Western trading partners are exacerbated by other factors such as asymmetries in negotiating styles, different policy-making processes in the field of trade, the amplifying influence of the mass media and an imbalance in the flow of information and inadequate personal exchanges.

Thus, the current trade friction may be called "structural friction" in the sense that it is rooted in a variety of structural factors. Alternatively, we may call it a "compound friction" because problems of all sorts combine to produce the tension. For this reason, it would seem impossible to obtain a neat, quick solution.

In response to the Western demands for freer access to the Japanese market, Japan adopted a comprehensive program of market-opening measures in January and another in May this year. These wide-ranging measures include deep tariff cuts, improvement of import inspection procedures and establishment of a trade ombudsman's office (OTO).

Meanwhile, the European Community proposed in March to hold consultations under provisions of Article XXIII of the General Agreement on Tariffs and Trade. Citing the relevant paragraphs of the article, it contended that "benefits" to which it is entitled to expect from the GATT negotiations (accords) are "nullified or impaired" as a result of the application by Japan of "special measures" or the existence of other factors.

More specifically, the EC complained that special features of the Japanese economy impede the import of products other than raw materials into the Japanese market. Combined with Japanese export growth in the EC region, this prevents the attainment of the GATT purpose of establishing a reciprocal trade relationship among GATT members.

The EC pointed out, among other things, that: (1) The ratio of manufactured goods imports to GNP is lower in Japan than other major trading countries. In 1980, it was only 2.5 percent for Japan, compared with 6.0 percent for the EC and 4.3 percent for the U.S. (2) Product standards, inspection and license procedures are too complex and cumbersome. (3) Groups of corporations, the distribution industry

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and the subcontracting system are structured in Japan in such a way as to discriminate against foreign products in the Japanese market. A handful of large business groupings (Mitsui, Mitsubishi, Sumitomo, Fuyo, Sanwa and Dai-Ichi Kangin) are in control of private industry in Japan, and, to a degree not paralleled in any other country, larger businesses have established vertical control of smaller businesses. (4) The government intervenes in private industry through so-called administrative guidance, and this guidance is applied often in a less than transparent manner. The government has also pursued a protectionist industrial policy.

For these and other reasons, the EC wants Japan to establish a target for expansion of manufactured goods imports so that the Japanese ratio of such imports to the GNP be raised to the level of the other industrial countries in a reasonable period of time.

The EC also calls for Japan to implement measures for imports expansion, including further tariff cuts, improvement of product standards and inspection procedures, and deregulation of finance and investment.

Still another area in which the EC wants to see Japanese action is the restraint of exports and governmental guarantees of private industry's adherence to it. This is proposed for specified export lines — passenger cars, color television sets and tubes and machine tools. It is to be noted that similar criticisms of Japan as those made by the EC were voiced by American participants in a recent session of the Japan-U.S. Businessmen's Conference. In response to the EC request, Japan has entered into consultations with the community.

We believe that some of the Western criticisms of Japanese economic institutions and practices are based on either misunderstandings or an outdated image of Japan. Other criticisms — for example those concerning bilateral trade imbalances and the GNP-manufactured goods import ratio — seem to have a conceptual flaw from the start.

Critics of Japan also often fail to realize that the Japanese market already is as open to imports as those of the other industrial countries, except perhaps in the farm-fishery sector. The "barrier" to importation is that the Japanese domestic market for manufactures is the most competitive in the world, reflecting the structure of Japan's factor endowment and the economies of scale Japanese companies can achieve. Japan imports a low percentage of manufactured goods for its GNP for basically the same reasons the U.S. imports an incredibly low percentage of agricultural products for its GNP.

"The 'barrier' to importation is that the Japanese domestic market for manufactures is the most competitive in the world..."

This does not mean, however, that Japan cannot benefit from the further liberalization of foreign trade. Japan's economic prosperity does depend on an open world trading system, and as the world's second largest economy, we have an important responsibility to provide leadership in supporting that trading system. Therefore Japan should listen carefully to the complaints of its trading partners and seek to make further efforts to open its markets, even though much of the rest of the world appears to be moving in a more protectionist direction.

For this reason, Keidanren announced a policy statement in April this year on the improvement of relations with Japan's trading partners. This statement called on the government to accelerate market liberalization of the 27 residual import quota items (it urged expansion and removal of the quotas), the drawing up of a timetable for phased opening of the market and the adoption of measures to implement it); to make further tariff reductions; and to vigorously implement administrative reforms — such as the radical simplification of export and import

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inspection formalities and of government licensing and approval-issuing functions—with a view to bringing about a major reduction in public intervention in foreign trade.

At the same time Keidanren put forward a number of suggestions for strengthening international collaboration and cooperation. It emphasized that, instead of reacting to foreign criticisms in a paranoid manner, Japan must recognize that market-opening measures will bring a far greater benefit for the national economy than any temporary pain they might entail for specific industries.

The present trade frictions have been spawned in the course of acute worldwide economic stagnation. This being the case, we are confronted with the fundamental task of revitalizing the world economy beyond the need for taking the trade measures I have mentioned. In other words, what policies the industrialized countries will apply toward their domestic industries and how successfully they can revitalize their domestic industries through international cooperation hold the key to solution of trade friction.

"...market-opening measures will bring a far greater benefit for the national economy..."

The growth of trade tension between Japan and the other industrial countries may be explained by how comparatively well they dealt with the unprecedented economic difficulties created by the 1973/74 oil crisis. Japanese industries, by and large, responded to the challenges by carrying out technological innovation and often painful management reforms.

In this way most of them have successfully enhanced their comparative advantage in the international marketplace. Trade friction thus has been generated between Japan and those Western countries where the response of major industries to the transformed economic conditions has been less than adequate. It is not surprising then that recent criticisms of Japan extend to its industrial policy.

Here let me review briefly the evolution of the Japanese industrial policy after the Second World War. The first stage of this evolution spans the period from the end of the war to 1960 when the emphasis was first placed on postwar economic reconstruction and later on the protection and nurturing of priority sectors. During this period, electric power, coal mining, steel, shipping and other basic industries were rebuilt with governmental protection. Later in this period, the steel industry showed a phenomenal expansion, while new industries like synthetic fiber and petrochemical were launched.

The second stage was that of internationalization, which lasted roughly from 1960 up to the outbreak of the first oil crisis. These years saw annual GNP growth of 10 percent or more. In line with the "Outline Program for Trade and Foreign Exchange Liberalization" of 1960, significant progress was made in the decontrolling of trade and capital transactions and the internationalization of the economy. Symbolic of this development was the admission of Japan into the OECD in 1964.

In another notable development, the growth of the heavy and chemical sectors accelerated, led by shipbuilding, radio and television products and automobiles. Worth noting is the fact that an important debate ensued over the direction of industrial policy. On one hand was the Ministry of International Trade and Industry, which sought to meet the challenge of liberalization through a policy of closer cooperation between the government and private industry. MITI was opposed by representatives of private industry who insisted on autonomous cooperation among private businesses themselves to ensure economic rationality. In the end, the policy of autonomous adjustment—the position of private industry—prevailed.

What I would like to point out is that, contrary to the widely held notion about Japan's industrial policy,

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competitive pressures and the hard work of private enterprises rather than government intervention have been decisive in the growth of industries in Japan, except in the early postwar years. Industrial policy in postwar Japan, after all, performed only a supplemental role to help the market mechanism work more effectively.

The third phase of evolution in industrial policy began in 1973. In this period, the search was under way for an industrial policy most relevant to the major structural changes of the world economy and different from that of the past, characterized by a single-minded effort to catch up with the West.

There are some major features of the third phase which I wish to sketch out briefly.

First, like all other advanced countries, Japan needs to deal with dynamic changes in the structure of international comparative advantage. In the 1970s and early 1980s, a number of our industries, such as shipbuilding, textiles, chemicals and aluminum, lost comparative advantage, particularly to strong competitors in the newly industrialized countries. In some of these products, there has been very significant import penetration into the Japanese market. In making adjustments, we should not seek to perpetuate inefficient industries, but we do need to ease the process of adjustment.

Second, during this third phase, Japan's foreign investments abroad, as well as investment by foreign companies in Japan, have increased very dramatically. Moreover, the composition of this investment is changing. In the past, Japan's investments have been heavily oriented toward resource development in developing countries, as well as import substitution forms of manufacturing. In the future, Japan will be increasingly investing in manufacturing facilities in developed countries.

Third, Japan encourages the expansion of high technology industries and other industries in which we believe Japan does have comparative advantage. In accordance with generally accepted international principles, Japanese government research and development funds and procurement are open to foreign-owned companies operating in Japan on the same basis as Japanese-owned corporations.

Fourth, I should mention that structural changes are occurring, resulting in an overall contraction of the manufacturing sector of our economy and an expansion of the service sector. No doubt, these structural changes will be reflected in expanding imports in manufactured goods.

In recent years, technological exchanges have become more active. Between Japan and Western Europe, for instance, projects in technological collaboration and joint research and development continue to multiply in a wide range of fields, including electronics, computers, robots, industrial machinery, automobiles and aircraft.

"In making adjustments, we should not seek to perpetuate inefficient industries, but we do need to ease the process of adjustment."

Keidanren is playing an active role in promoting industrial cooperation with Europe. Acting on findings obtained as a result of the visit to Europe made by a delegation headed by Chairman Inayama himself last year, Keidanren established the Committee on International Investment and Technology Exchange, which has been active in organizing various programs since then.

I have given a brief account of industrial policy in Japan and our attitude toward industrial cooperation. It seems that not a few people in leading positions in the Western societies have a tendency to attribute Japan's comparatively good economic performance to what they perceive to be a government-led economic system and some cultural characteristics of our society. I do not think that this manner of perception is realistic. In my opinion, the vitality and resourcefulness of

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MASAYA MIYOSHI

Born in 1928. After receiving his B.A. and M.A. in economics from Waseda University, Mr. Miyoshi joined the Research Department of Keidanren (Federation of Economic Organizations). He was awarded a Fulbright scholarship to study at George Washington University in 1957 and returned to Washington from 1965 to 1968 to serve as economic consultant, U.S.–Japan Trade Council. Mr. Miyoshi was appointed deputy director and director, International Economic Affairs Department at Keidanren, and became managing director in 1980. He is the author or coauthor of several books, including The European Community as Seen from Japan *and* Trade and Investment Policies for the 1970's.

private enterprise is the decisive, underlying factor in preserving the dynamism of a national economy and the competitiveness of its export sectors.

The fact must be better appreciated that there exist in Japan conditions which are conducive to the functioning of the market mechanism and not to government intervention.

"Controversies...are certain to break out over defense policy in the coming years."

The growth of national power centering on economic achievements on the one hand, and increased instabilities in the world climate on the other, have led to a gradual rise in public concern over the need for a larger Japanese contribution to the international community and a comprehensive policy of national security.

The comprehensive approach to national security was first adopted by the government during the days when the late Mr. Masayoshi Ohira was prime minister. The basic idea behind the concept is that there are multiple dimensions to international security — not only a military dimension — and that Japan, while expanding its own self-defense efforts, can contribute to general regional and global security by contributions in economic and social fields. Mr. Suzuki, the incumbent prime minister, followed up on this concept by establishing a ministerial conference on comprehensive national security measures in December 1980. The cabinet-level committee has since taken up for consideration a broad range of national measures, from foreign policy to development assistance, energy affairs and food policy, all from the viewpoint of national security. In the making of the budget for the fiscal year 1982, the government has been forced to apply a stringent curb on expenditures, holding down increases in all spending items to zero in principle. Yet this "zero ceiling" was waived in effect as to national security–related categories, which include defense, energy measures and economic assistance to developing countries. As a result, defense outlays are budgeted to increase 7.8 percent in fiscal 1982, while appropriations for energy measures and development assistance by 13.2 percent and 10.8 percent, respectively.

Above all, economic cooperation with the developing world constitutes a major instrument of foreign policy for our country as a major nonmilitary power. Japan has already fulfilled the medium-term goal of doubling the level of official development assistance (ODA) in the three years from 1977. A new medium-term goal has since been announced to both home and overseas audiences. The new target calls for increasing the total ODA in the first five years of the 1980s to more than double the total for the last five years of the 1970s ($10.68 billion).

The transfer of resources by Japan in the form of ODA came to a total of $3.17 billion, making it the fourth largest ODA donor after the United States ($5.76 billion), France ($4.02 billion), and the Federal Republic of Germany ($3.18 billion).

Economic assistance programs, in a most fundamental sense, are governed by humanitarian considerations and the recognition of interdependence. Attention ought to be given at the same time to the fact that supporting economic development in Third World nations through assistance helps increase national resilience in the recipient countries, as well as political stability there. Priority in Japan's economic assistance programs is given to the Asian region where it has a major economic and security interest. Seventy percent of the annual flow of the Japanese ODA is directed to that region. In recent years, as security considerations began to affect the distribution of ODA, there was increased assistance to countries bordering on areas of conflict, such as Thailand and Pakistan, as well as those countries of pivotal importance to East-West relations, such as Turkey and Poland.

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In this way Japan, with its economic assistance programs, is contributing in no small way to economic development and stability in Asia, and thereby to world peace and security. Development assistance is precisely an area where an economically strong but lightly armed country like Japan can shoulder a large share of the responsibilities as a member of the international community. Despite acute difficulties in government finance, Japan's contribution in this area may be expected to keep expanding.

In the field of defense as well, the Japanese people show steadily increasing interest in the security problem. The idea of improving defense capabilities within reasonable limits also seems to be gaining wider public support. In a meeting with President Reagan held in May last year in Washington, Prime Minister Suzuki expressed the intention of the Japanese government to do more for improving defense capabilities. While in Washington, the Japanese leader declared that Japan was willing to take on a primary role for defending sea lanes out to a distance of 1,000 miles to the south in the Pacific Ocean.

And in July this year, the 1981 mid-term program estimate was adopted by the National Defense Council. Implementation of this medium-term defense buildup program (fiscal 1983 to 1987) is expected to give the Japanese Self-Defense Forces, by the plan's end, a capability to effectively cope with a limited and small-scale attack on Japan, as envisioned under the Outline of Defense Plans of 1976.

Controversies of all sorts are certain to break out in Japan over defense policy in the coming years. And considering the fact that defense issues remained a taboo for more than 30 years in Japan after the end of the last war, we will not be able to share the burden of common defense in the near future to the extent desired by the Western countries. Yet, the sharing by Japan of the defense and other "costs" as a major economic power in the Free World will continue to grow in a steady manner.

In retrospect, the postwar decades of Pax Americana already have come to an end with a progressive decline in the relative strength of the United States. Clearly, however, no other member of the Western alliance can substitute for the U.S. as the global power.

Nowhere else can we look for the leadership of the Free World. The only alternative left for Japan, the U.S. and Western Europe, bound by their common commitments to the freedom of the individual, democratic institutions, the market economy and liberal trade, is to strengthen cooperation and the alliance relationship among them. There will be times when members of the alliance see their national interests collide. At other times, interests could diverge from the good of the alliance as a whole. In such instances, it is essential to find an accommodation through consultation, burying minor differences and agreeing on the common good from the broad standpoint.

In this connection, the ministerial conference of GATT scheduled for November is of crucial importance to the preservation and strengthening of the liberal and open trading system for the world. What is most needed now is to have a firm political will to maintain and bolster the free trading and economic system, avoiding the expediency of protectionism and the road to the disaster of the 1930s.

These considerations lead us to the self-evident fact that Japan, Western Europe and North America are in the same boat. What is important is to appreciate it and work together for our common objectives. And we must also cooperate with such an attitude to remove the trade and economic frictions between Japan and the Western countries. □

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An Historic Responsibility

The President's Address to the Diet

Ronald Reagan

President of the United States of America

Delivered before the National Diet, Tokyo, November 11, 1983

IT is with great honor and respect that I come before you today—the first American president ever to address the Japanese Diet.

I have been in your country only two days. But speaking for my wife, Nancy, and myself, may I say, you have more than made us feel at home: the warmth of your welcome has touched our hearts. In welcoming us, you pay tribute to the more than 230 million Americans whom I have the privilege to represent. From all of them to all of you, we reach out to say: The bonds of friendship which unite us are even greater than the ocean which divides us. Japanese-American friendship is forever.

It was a dozen years ago, on an autumn day like this one, that I first visited Japan. Today, as then, I feel energy, initiative and industry surging through your country in a mighty current for progress. And just as before, I am struck by a unique gift of the Japanese people. You do not build your future at the expense of the grace and beauty of your past.

Harmony is a treasured hallmark of Japanese civilization, and this has always been pleasing to Americans. Harmony requires differences to be joined in pursuit of higher ideals, many of which we share. When former President Ulysses S. Grant visited here in 1879, he discovered Japan is a land of enchantment. He said, "Japan is beautiful beyond description."

During his stay, he met with the emperor, and their discussion turned to democracy, the pressing issue of the day. President Grant observed that governments are always more stable and nations more prosperous when they truly represent their people.

I am proud to help carry forward that century-old tradition—meeting first with your emperor on my arrival, and now marking with you a great milestone in your history: the 100th session of the Diet under the modern Japanese Constitution. In six years, you will celebrate your 100th anniversary of representative government in Japan—just as we will celebrate the birth of our own Congress. I bring you best wishes and heartfelt greetings from your American counterpart, the Congress of the United States.

One cannot stand in this chamber without feeling a part of your proud history of nationhood and democracy, and the spirit of hope, carrying the dreams of your free people. Of all the strengths we possess, of all the ties that bind us, I believe the greatest is our dedication to freedom. Japan and America stand at the forefront of the free nations and free economies in the world.

Yes, we are 5,000 miles apart; yes, we are distinctly different in customs, language and tradition; and, yes, we are often competitors in the world's markets. But I believe the people represented by this proud parliament, and by my own United States Congress, are of one heart in their devotion to the principles of our free societies.

I am talking about principles that begin with the sacred worth of human life; the cherished place of the family; the responsibility of parents and schools to be teachers of truth, tolerance, hard work, cooperation and love; and the role of our major institutions—government, industry and labor—to provide the opportunities and security free people need to build and leave behind a better world for their children and their children's children.

America and Japan are situated far apart, but we are united in our belief that freedom means dedication to the dignity, rights and equality of man. Yukichi Fukuzawa, the great Meiji era educator, said it for you: "Heaven has made no man higher or no man lower than any other man."

Our great American hero Abraham Lincoln put it in political perspective for us: "No man is good enough to govern another man without that other's consent." We both value the right to have a government of our own choosing. We expect government to serve the people. We do not expect the people to serve government.

America and Japan speak with different tongues, but both converse, worship and work with the

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language of freedom. We defend the right to voice our views, to speak words of dissent without being afraid, and to seek inner peace through communion with our God.

We believe in rewarding initiative, savings and risk taking. And we encourage those who set their sights on the farthest stars and chart new paths to progress through the winds and waters of commerce. Others censor and stifle their citizens. We trust in freedom to nurture the diversity and creativity that enriches us all. I like what your poet Basho said: "Many kinds of plants and each one triumphant in its special blossoms."

Finally, our freedom inspires no fear because it poses no threat. We intimidate no one. And we will not be intimidated by anyone. The United States and Japan do not build walls to keep people in; we do not have armies of secret police to keep them quiet; we do not throw dissidents into so-called mental hospitals; and we would never cold-bloodedly shoot a defenseless airliner out of the sky. We share your grief for that tragic and needless loss of innocent lives.

Our two countries are far from perfect. But in this imperfect and dangerous world, the United States and Japan represent the deepest aspirations of men and women everywhere—to be free, to live in peace, and to create and renew the wealth of abundance and spiritual fulfillment. I have come to Japan because we have an historic opportunity, indeed, an historic responsibility. We can become a powerful partnership for good, not just in our own countries, not just in the Pacific region, but throughout the world. Distinguished ladies and gentlemen, my question is: Do we have the determination to meet the challenge of partnership and make it happen? My answer is without hesitation: Yes we do; and yes we will.

For much of our histories, our countries looked inward. Well, those times have passed. With our combined economies accounting for half the output of the free world, we cannot escape our global responsibilities. Our industries depend on the importation of energy and minerals from distant lands. Our prosperity requires a sound international financial system and free and open trading markets. And our security is inseparable from the security of our friends and neighbors.

"With our combined economies accounting for half the output of the free world, we cannot escape our global responsibilities."

The simple hope for world peace and prosperity will not be enough. Our two great nations, working with others, must preserve the values and freedoms our societies have struggled so hard to achieve. Nor should our partnership for peace, prosperity and freedom be considered a quest for competing goals. We cannot prosper unless we are secure. We cannot be secure unless we are free. And we will not succeed in any of these endeavors unless Japan and America work in harmony.

I have come to your country carrying the heartfelt desires of America for peace. I know our desires are shared by Prime Minister Nakasone and all of Japan. We are people of peace. We understand the terrible trauma of human suffering. I have lived through four wars in my lifetime. So I speak not just as president of the United States, but also as a husband, a father and as a grandfather. I believe there can be only one policy for preserving our precious civilization in this modern age: A nuclear war can never be won and must never be fought.

The only value in possessing nuclear weapons is to make sure they can't be used ever. I know I speak for people everywhere when I say our dream is to see the day when nuclear weapons will be banished from the face of this earth.

Arms control must mean arms reductions. America is doing its part. As I pledged to the United Nations less than two months ago, the United States will

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accept any equitable, verifiable agreement that stabilizes forces at lower levels than currently exist. We want significant reductions and we are willing to compromise.

In the Strategic Arms Reduction Talks, American negotiators continue to press the Soviet Union for any formula that will achieve these objectives. In the longer range INF talks, we are pursuing the same course, even offering to eliminate an entire category of weapons. I am very conscious of our negotiating responsibility on issues that concern the safety and well-being of the Japanese people. Let me make one thing very plain. We must not and we will not accept any agreement that transfers the threat of longer range nuclear missiles from Europe to Asia.

"To all those who lack faith in the human spirit, I have just three words of advice: Come to Japan."

Our great frustration has been the other side's unwillingness to negotiate in good faith. We wanted to cut deep into nuclear arsenals and still do. But they are blocking the dramatic reductions the world wants. In our good faith effort to move the negotiations forward, we have offered new initiatives providing for substantial reductions to equal levels – and the lower the level the better. But we still wait for the first positive response.

Despite this bleak picture, I will not be deterred in my search for a breakthrough. The United States will never walk away from the negotiating table. Peace is too important. Common sense demands that we persevere, and we will persevere.

We live in uncertain times. There are trials and tests for freedom wherever freedom stands. It is as stark as the tragedy over the Sea of Japan, when 269 innocent people were killed for the so-called cause of sacred airspace. It is as real as the terrorist attacks last month against the Republic of Korea's leadership in Rangoon, and against American and French members of the international peacekeeping force in Beirut. And yes, it is as telling as the stonewalling of our adversaries at the negotiating table, and as their crude attempts to intimidate freedom-loving people everywhere.

These threats to peace and freedom underscore the importance of closer cooperation among all nations. You have an old proverb that says, "A single arrow is easily broken, but not three in a bunch." The stronger the dedication of Japan, the United States and our allies to peace through strength, the greater our contributions to building a more secure future will be. The U.S.–Japan Treaty of Mutual Cooperation and Security must continue to serve us as the bedrock of our security relationship. Japan will not have to bear the burden of defending freedom alone. America is your partner. We will bear that burden together.

The defense of freedom should be a shared burden. We can afford to defend freedom; we cannot afford to lose it. The blessings of your economic miracle, created by the genius of a talented, determined and dynamic people, can only be protected in the safe harbor of freedom.

In his book, *In Quest of Peace and Freedom*, former Prime Minister Sato wrote: "In the hundred years since the Meiji Restoration, Japan has constantly endeavored to catch up and eventually overtake the more advanced countries of the world." Well, I don't think I'll be making headlines when I say, you've not only caught up, in some cases, you've pulled ahead. Here again, our partnership is crucial. But this time, you can be teachers. To all those who lack faith in the human spirit, I have just three words of advice: Come to Japan.

Come to a country whose economic production will soon surpass the Soviet Union's, making Japan's economy the second largest in the entire world. Come to learn from a culture that instills in its people a strong spirit of cooperation, discipline and striving for excellence; and yes, learn from government

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policies which helped create this economic miracle—not so much by central planning, as by stimulating competition, encouraging initiative, and rewarding savings and risk taking.

Our country has made great strides in this direction during the last three years. We are correcting past mistakes. Hope is being reborn. Confidence is returning. America's future looks bright again. We have turned the corner from overtaxing, overspending, record interest rates, high inflation and low growth. The United States is beginning the first stage of a new industrial renaissance, and we're helping pull other nations forward toward worldwide recovery.

But some in my country still flinch from the need to restrain spending. Under the guise of lowering deficits, they would turn back to policies of higher taxes. They would ignore the lesson of Japan. A look at Japan's postwar history yields two stunning conclusions: Among the major industrialized countries, your tax burden has remained the lowest and your growth and savings rates the highest. Savers in Japan can exempt very large amounts of interest income from taxation; your taxes on so-called unearned income are low; you have no capital gains tax on securities for investors; and the overwhelming majority of your working people face tax rates dramatically lower than in the other industrial countries including my own. And incentives for everyone—that's the secret of strong growth for a shining future filled with hope and opportunities and incentives for growth, not tax increases—is our policy for America. Sometimes I wonder if we shouldn't further our friendship by my sending our Congress here and you coming over and occupying our Capitol building for a while.

Partnership must be a two-way street grounded in mutual trust. Let us always be willing to learn from each other and to cooperate together. We have every reason to do so. Our combined economies account for almost 35 percent of the world's entire economic output. We are the world's two largest overseas trading partners. Last year, Japan took about 10 percent of our total exports and we bought some 25 percent of yours. Our two-way trade will exceed $60 billion in 1983, more than double the level of seven years ago.

"I am old enough to remember what eventually happened the last time countries protected their markets from competition."

At the Williamsburg summit last May, the leaders of our industrial democracies pledged to cooperate in rolling back protectionism. My personal commitment to that goal is based on economic principles, old-fashioned common sense and experience. I am old enough to remember what eventually happened the last time countries protected their markets from competition. It was a nightmare called the Great Depression. World trade fell by 60 percent, and everyone, workers, farmers and manufacturers were hurt.

Let us have the wisdom never to repeat that folly. We are in the same boat with our trading partners around the globe. If one partner shoots a hole in the boat, does it make sense for the other one to shoot another hole in the boat? Some say, yes, and call that getting tough. Forgive me, but I call it getting wet—all over. Rather than shoot holes, let us work together to plug them up, so our boat of free markets and fair trade can lead us all to greater economic growth and international stability.

I have vigorously opposed quick fixes of protectionism in America—anticompetitive legislation like the local-content rule which would force our domestic manufacturers of cars to use a rising share of U.S. labor and parts. This would be a cruel hoax, raising prices without protecting jobs. We would buy less from you; you would buy less from us; the world's economic pie would shrink. Retaliation and recrimination would increase.

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RONALD REAGAN

Born in Illinois in 1911. After graduating from Eureka College in 1932, Mr. Reagan became a radio sports announcer. He moved to Hollywood in 1937 and began a successful career as a movie actor. After 1945 Mr. Reagan served six terms as president of the Screen Actors Guild and was elected chairman of the Motion Picture Industry Council in 1949. Mr. Reagan became a Republican in the early 1960s. For several years, he campaigned for Republican candidates, such as Richard M. Nixon and Barry Goldwater. In 1966, Mr. Reagan was elected governor of the state of California and served two terms. He sought the Republican nomination for president in 1976 but lost to Gerald Ford. Mr. Reagan remained active in politics and became the Republican presidential candidate in 1980. After defeating Jimmy Carter in the election, Mr. Reagan became the 40th president of the United States.

It is not easy for elected officials to balance the concerns of constituents with the greater interests of the nation. But that is what our jobs are all about. And we need your help in demonstrating free trade to address concerns of my own people. Americans believe your markets are less open than ours. We need your support to lower further the barriers that still make it difficult for some American products to enter your markets easily. Your government's recent series of actions to reduce trade barriers are positive steps in this direction. We very much hope this process will continue and accelerate. In turn, I pledge my support to combat protectionist measures in my own country.

If we each give a little we can all gain a lot. As two great and mature democracies, let us have the faith to believe in each other, to draw on our long and good friendship, and to make our partnership grow. We are leaders in the world economy. We and the other industrialized countries share a responsibility to open up capital and trading markets, promote greater investment in each other's country, assist developing nations, and stop the leakage of military technology to an adversary bent on aggression and domination.

"I have vigorously opposed quick fixes of protectionism in America..."

We believe that the currency of the world's second largest free market economy should reflect the economic strength and political stability that you enjoy. We look forward to the yen playing a greater role in international financial and economic affairs. We welcome the recent trend toward a stronger yen. And we would welcome Japan's increasingly active role in global affairs. Your leadership, in aid to refugees and in economic assistance to various countries, has been most important in helping to promote greater stability in key regions of the world. Your counsel on arms reduction initiatives is highly valued by us.

We may have periodic disputes, but the real quarrel is not between us. It is with those who would impose regimentation over freedom; drudgery over dynamic initiative; a future of despair over the certainty of betterment; and the forced feeding of a military goliath over a personal stake in the products and progress of tomorrow.

You and your neighbors are shining examples for all who seek rapid development. The Pacific Basin represents the most exciting region of economic growth in the world today. Your people stretch your abilities to the limit, and when an entire nation does this, miracles occur. Being a Californian, I have seen many miracles hardworking Japanese have brought to our shores.

In 1865, a young samurai student, Kanaye Nagasawa, left Japan to learn what made the West economically strong and technologically advanced. Ten years later, he founded a small winery at Santa Rosa, California, called the Fountaingrove Round Barn and Winery. Soon he became known as the grape king of California. Nagasawa came to California to learn, and stayed to enrich our lives. Both our countries owe much to this Japanese warrior-turned-businessman.

As the years pass, our contacts continue to increase at an astounding rate. Today, some 13,000 of your best college and graduate students are studying in America. And increasing numbers of U.S. citizens are coming here to learn everything they can about Japan. Companies like Nissan, Kyocera, Sony and Toshiba have brought thousands of jobs to America's shores. The state of California is planning to build a rapid-speed train that is adapted from your highly successful bullet train. In 1985, the United States will join Japan in a major exhibition of science and technology at Tsukuba, another symbol of our cooperation.

For my part, I welcome this new Pacific tide. Let it roll peacefully on, carrying a two-way flow of people and ideas that can break down barriers of suspicion

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and mistrust, and build up bonds of cooperation and shared optimism.

Our two nations may spring from separate pasts; we may live at opposite sides of the earth. But we have been brought together by our indomitable spirit of determination, our love of liberty, and devotion to progress. We are like climbers who begin their ascent from opposite ends of the mountain. The harder we try, the higher we climb, and the closer we come together—until that moment we reach the peak and we are as one.

It happened just last month. One American and two Japanese groups began climbing Mt. Everest—the Japanese from the side of Nepal and the Americans from the side of Tibet. The conditions were so difficult and dangerous that, before it ended, two Japanese climbers tragically lost their lives. But before that tragedy, these brave climbers all met and shook hands just under the summit. Then, together, they climbed to the top to share that magnificent moment of triumph.

Good and dear friends of Japan, if those mountaineers could join hands at the top of the world, imagine how high our combined 350 million citizens can climb, if all of us work together as powerful partners for the cause of good. Together, there is nothing Japan and America cannot do.

Thank you very much. God bless you. □

(The title of this speech was supplied by the editor.)

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APPENDIX

INTRODUCTION:

". . .There is one thing about the future of which we can be certain, it is this: what happens in any one corner of the globe will increasingly affect, and be affected by, people and events elsewhere.

We live, like it or not, in an era of global interdependence. Nations rely on one another for raw materials, food-stuffs, consumer items, energy sources, technology, and the know-how to produce and use all of these - the tangible goods and services, in other words, that add up to international commerce. But we are equally, though perhaps less tangibly, dependent on one another for knowledge, for power, for protection, and for appreciation of the great diversity of people and customs that are all part of our world." (Getting Started in Global Education, Collins and Zakariya, page 2)

"Global education is the lifelong growth in understanding, through study and participation, of the world community and the interdependency of its people and systems - social, cultural, racial, economic, linguistic, technological, and ecological. Global education requires an understanding of the values and priorities of the many cultures of the world as well as the acquisition of basic concepts and principles related to the world community. Global education leads to implementation and application of the global perspective in striving for just and peaceful solutions to world problems." (Michigan Department of Education, Getting Started in Global Education, Collins and Zakariya, page 4)

The following quotes are taken from Megatrends, John Naisbitt, Warner Books, New York, 1982 - Chapter 3, "From a National Economy to a World Economy":

"The two most important things to remember about world economics are that yesterday is over and that we must now adjust to living in a world of interdependent communities." (page 55)

"The United States is in the midst of a powerful two-fold change. First, we are shifting from being an isolated, virtually self-sufficient national economy to being part of an interdependent global economy. Second, we are giving up our former role as the world's dominant force and becoming a member of a growing handful of economically strong countries." (page 57)

"Japan has seized from us the position as the world's leading industrial power, having surpassed the United States both in steel and automobile production. On a per capita basis, Japan's GNP is about even with ours, with Japan having the growth edge. We are ahead only because of the sheer size of our economy." (page 56)

"We have much to learn from both Japan and West Germany on the subject of structural adjustment." (page 63)

"Instead of resisting increased economic interdependence, we should be embracing it wholeheartedly. In my view, it is our great hope for peace. . . For example, I suggest that we are so economically intertwined with Japan that if we have any problems with Japan today, we are going to work them out. I think the same will be true globally." (page 77)

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The place for this type of exposure to the contemporary world is in the Social Science classroom. Perhaps the most effective way to learn about our world and its various cultures is to experience them by traveling to other countries. Ideally, all students should have this opportunity. On a practical basis this is impossible. Next best is the opportunity afforded to educators to experience other cultures and their ways of life and to be able to share these experiences with their students in the classroom setting. This goes a long way towards enhancing global education.

RATIONALE:

Since its inception in 1972, the Irvine Unified School District has been involved in curriculum development. The Social Sciences have been a part of this process with a district-wide curriculum committee meeting during the following years: 1975, 1977, 1978 and currently, 1982-1984. The following quotes are taken from a current district document entitled, "Preparing Students for the Twenty-First Century":

> Toward a Truly Global Economy: "The national media tend to miss the growing reality that we are part of a very interdependent global economy. What happens in other countries has a very direct impact on what happens here because of an intricate web of economic inter-relationships and not because of politics. Information is now instantaneously shared around the world and all economies act and react on a continuing basis to developments as they occur." (page 11)
>
> Global Perspective: "Global perspective is the ability to view issues and problems as a citizen of the planet as well as a city or nation. This curriculum thrust recognizes that anyone's problem anywhere has become everyone's problem everywhere." (page 20)
>
> Contemporary and Future Issues: "If the major issues facing mankind are to be tackled effectively, today's students will require adequate awareness and information. For each issue (local, national, or global) historical background, current analysis, and a long-range or future perspective is desireable." (page 21)

The current district Social Science Steering Committee has been charged with the responsibility of researching and developing a guide with related materials for use by teachers in Social Science settings for our schools. The importance of understanding and studying other cultures of the world is shown to be most important and will definitely be a part of the Social Science curriculum of the Irvine Unified School District. At the high school level there has been an on-going process of curriculum revision and updating. The attempt has always been to provide relevant courses that will give background and understanding of our nation and the world.

As the district Steering Committee completes its work next year, it will be making recommendations and distributing guidelines reflecting a global awareness approach. The more in-put to this curricular development from direct exposure to other cultures and nations the better will be the product in terms of a more objective viewpoint of the inter-relationship of the nations of the world.

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GOALS:

Listed below are goal statements that deal with the "political economy". These statements will be addressed and give focus to this participant in the proposed tra study fellowship to Japan.

1. To understand economic problems and potential problems that have global implications.

2. To be able to participate responsibly in an interdependent world based on current information.

3. To understand the underlying values that are important to contemporary Japanese society.

4. To engage in person-to-person contacts with official and unofficial representatives of Japan for the purpose of seeing first-hand the life and culture of Japan.

5. To study the economic, political and social system of Japan.

6. To understand the "political economy" of contemporary Japan by exposure to its political system, its economic system and the interrelationship of the two.

7. To understand how Japan has risen from an "occupied country" (1945-1951) to an industrial giant in the world of today (1983).

8. To understand how the basic economic problem - allocating scarce resources among competing wants - is the same for the United States and Japan and how economic planning in the two countries compares and differs.

9. To understand who makes the economic decisions in and for Japan.

10. To examine the methods by which Japanese industry has developed its organizational structure, has become a major producer of quality consumer products with little natural resource base, and has become a major industrial competitor in the world today.

11. To address the following idea and to see how it relates to Japan: "A capitalist economy is no guarantee of political democracy, although the two seem to go well together. . ."

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TIMELINE FOR PROPOSAL SUBMITTED BY BURTON LINDFORS:

June 30, 1983	Applications due for travel/study fellowship.
August 15, 1983	Teachers selected for travel/study fellowship.
October 3-22, 1983	Travel/study trip to Japan.
November-December 1983	"Drafts" of Curriculum Materials completed.
January 15, 1984	Interim Report due to U.S.-Japan Education Group.
February-April 1984	Materials introduced and "piloted" in Political Science (12th grade), as part of the unit on "Comparative Political and Economic Systems", and in World Regional Studies (9th grade), as part of the unit on "Asia", at Woodbridge High School. Materials submitted to Social Science Steering Committee in the Irvine Unified School District for review and possible incorporation into the district-wide secondary course revision recommendations (grades 9-12).
May-June 1984	Revision of materials, as needed.
June 30, 1984	Final Report submitted, detailing completed activities, to the U.S.-Japan Education Group and to the Irvine Unified School District.

FORMAT OF THE CURRICULUM PROPOSAL:

As a member of the Irvine Unified School District Social Science Steering Committee, and as Chairperson of the Social Science Department at Woodbridge High School, as well as being a teacher at Woodbridge High School of Political Science and World Regional Studies, I will have the support and backing of district-level and local school site administrators in the development and implementation of the following proposal based on the suggested timeline:

1. Use the 11 stated goals as guidance for the gathering of information related to economics and the "political economy" of Japan and Japan's relationship to the United States and to the interdependent global economy.

2. Upon return from the trip, write and assemble a curricular "package" of materials for use in classrooms by teachers and students. The "package" would be organized in the following manner:

   -Table of Contents.

   -Introduction to the "package".

   -A rationale for the use of the materials in the "package".

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-Goals.

-Specific objectives stated so that it is clear to all who use the material exactly what is being attempted and why.

-Suggested classroom activities and assignments based on the materials in the "package".

-Written pages of materials gathered from the trip to Japan, both published materials (if available) and written materials by the writer of this proposal.

-The materials would be compiled and assembled so that they could be adapted for use by not only my school, Woodbridge High School, but by the other three high schools in the district (Irvine High School, S.E.I.F. High School and University High School).

CONCLUDING THOUGHTS:

In the Irvine Unified School District we offer few formal "Economics" courses at the high school level (at Woodbridge High School a "Consumer's Economics" course was introduced for the school year, 1982-1983), but we are committed to teaching economics in a number of existing required courses for all of our students. At Woodbridge High School we introduce and emphasize economics in our 9th grade World Regional Studies class (year-long class), in our 11th grade U.S. History class (year-long class), and in our 12th grade Political Science class (one-semester). We feel that economics is a very important subject and it receives a good deal of attention in our curriculum.

Much of the material used by teachers is derived from books and periodicals, all of which is fine in itself, but is secondary source material. To be able to experience and gather materials first-hand (primary source material) is an exciting prospect. To be able to incorporate primary source material into the existing curriculum helps to make the area of study more "real" to the students and more exciting in the classroom. The proposed travel and study fellowship offers this opportunity and will be a memorable life-time experience.

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